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**THE CRISIS OF THE ARGENTINIAN STATE:  
DEMOCRATISATION AND ECONOMIC RESTRUCTURING  
1976 - 1989**

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## **Abstract**

This thesis examines the crisis of the Argentinian state during the period of the 1983-1989 democratic government. It suggests that the 1976 military dictatorship attempted to resolve the crisis of the Argentinian state by implementing an economic structural reform and State Terrorism. The consequences of the economic structural reform and State Terrorism constrained the margin of manoeuvre of the 1983 democratic government. The main economic constraints were the huge external debt and the impoverishment of the working class. The main political constraint was the need to bring the military to trial while avoiding a direct confrontation with the Armed Forces.

The huge external debt constrained not only Argentina's economic growth but also the Radical government's economic strategies. A 'monetarist' restructuring of the state was imposed on debtor countries through IMF 'conditionality' loans. While the Radical government initially opposed such a restructuring, it later gradually began to implement the IMF's requirements.

The impoverishment of the working class intensified the government's confrontation with the trades union movement. The Radical government unsuccessfully attempted to control and demobilise the working class. The trades union movement and the workers were able to block state policies, becoming the ultimate barrier to the restructuring policies adopted by the state.

The attempt to bring the military to trial exacerbated the relationship between the Radical government and the Armed Forces. The government was unable to implement its own policies towards human rights violations, which prevented a definitive solution to this problem. In addition, the failure to resolve this problem intensified internal unrest within the Armed Forces, fostering the breakdown of the Army's hierarchy.

The main political objective of the Radical government was to consolidate democracy. The economic legacy of the military dictatorship obliged the government to deepen the 'monetarist' restructuring of the state and the impoverishment of the workers while consolidating democracy. Implementing 'market-oriented' reforms made the transition to democracy more difficult.

The thesis suggests that the Radical government, although unable to resolve the crisis of the Argentinian state, was able to begin the path towards consolidating democracy due to its policies towards human rights violations, which undermined the political role of the Armed Forces.



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## Abbreviations

Asociación de Bancos de la República Argentina <i>Argentinian Republic Banks Association</i>	<b>ABRA</b>
Asociación de Bancos Argentinos <i>Argentinian Banks Association</i>	<b>ADEBA</b>
Asociación Obrera Textil <i>Textile Workers Association</i>	<b>AOT</b>
Banco Central de la República Argentina <i>Argentinian Central Bank</i>	<b>BCRA</b>
Cámara Argentina de Comercio <i>Argentinian Chamber of Commerce</i>	<b>CAC</b>
Comisión Económica para América Latina y el Caribe	<b>CEPAL</b>
Comisión Nacional de Desaparición de Personas <i>Argentina's National Commission on Disappeared People</i>	<b>CONADEP</b>
Confederación General del Trabajo <i>General Confederation of Labour</i>	<b>CGT</b>
Confederación Intercooperativa Agropecuaria <i>Agrarian Confederation of Cooperatives</i>	<b>CONINAGRO</b>
Confederaciones Rurales Argentinas <i>Argentinian Rural Confederations</i>	<b>CRA</b>
Conferencia Económica y Social <i>Economic and Social Conference</i>	<b>CES</b>
Consumer Price Index	<b>CPI</b>
Economic Commission for Latin America and the Caribbean	<b>ECLA</b>
Ejército Revolucionario del Pueblo <i>People's Revolutionary Army</i>	<b>ERP</b>
Federación Agraria Argentina <i>Argentinian Agrarian Federation</i>	<b>FAA</b>
Gross National Product	<b>GNP</b>



Grupo de Oficiales Unidos <i>United Officials Group</i>	<b>GOU</b>
Grupos Económicos Nacionales <i>National Economic Groups</i>	<b>GEN</b>
Import Substitution Industrialisation	<b>ISI</b>
Instituto Nacional de Estadísticas y Censos <i>National Institute of Statistics and Census</i>	<b>INDEC</b>
International Monetary Fund	<b>IMF</b>
Movimiento Todos por la Patria <i>Movement All for the Fatherland</i>	<b>MTP</b>
London Inter-Bank Offered Rate	<b>LIBOR</b>
Oil Producing and Exporting Countries	<b>OPEC</b>
Sindicato de Mecánicos del Transporte Automotor <i>Union of Automobile Mechanics</i>	<b>SMATA</b>
Sociedad Rural Argentina <i>Argentinian Rural Society</i>	<b>SRA</b>
Unión Industrial Argentina <i>Argentinian Industrial Union</i>	<b>UIA</b>
Unión Obrera Metalúrgica <i>Metal Workers Union</i>	<b>UOM</b>
Unión Obreros de la Construcción de la República Argentina <i>Construction Workers Union</i>	<b>UOCRA</b>
Value Added Tax	<b>VAT</b>
Wholesale Price Index	<b>WPI</b>

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***Con la democracia se come, se cura y se educa***

***(Alfonsín's slogan, 1983 electoral campaign)***

***(Con la democracia) Creo que se come, se cura y se educa, pero no se hacen milagros***

***(Alfonsín, 1992, p. 48)***

## Introduction

On the 10th of December 1983, Raúl Alfonsín, leader of the Radical Party<sup>1</sup>, took office as President of Argentina ending seven years of military dictatorship. On the 30th of June 1989, he resigned showing the inability of his government to control the crisis of the Argentinian state. The President elect, Carlos Menem, from the Peronist Party, took office five months before Alfonsín's constitutional mandate expired. The fall of Alfonsín's government has not been analysed in depth. Although there is an extensive literature on the Radical Party's term in office, there has been no attempt to examine the interrelation between the economic and political factors underlying the government's fall.

Existing studies exhibit the following serious weakness: the economic analyses overwhelmingly ignore the political process while existing political analyses fail to conceptualise the economic crisis.

On a theoretical level this thesis challenges the view that a meaningful distinction can be drawn between 'economics' and 'politics'. Crisis is neither 'economic' nor 'political'. Rather it expresses the instability of the labour-capital relation on which capitalist society is based. Although, as I will argue, crisis is often experienced in an economic form, the condition for the resolution of crisis is the restructuring of the state and the working class. This thesis demonstrates how Alfonsín attempted to restructure both the state and the working class and the Argentinian state's relationship to the global economy.



## I. Existing accounts of Alfonsín's government

A large number of economic analyses suggest that the Alfonsín government failed to prevent economic crisis because of the inability of its economic team to implement the second stage of the *Austral* Plan, rationalising the state apparatus through privatisations, and reducing the public deficit (Canavese and Di Tella, (1988); Heyman (1991); Kiguel and Liviatan (1991); and Machinea, (1990)). Some analyses argue that the government, due to its inability to resolve the economic crisis, fell because of the opposition of the National Economic Groups (*Grupos Económicos Nacionales* - GEN)<sup>2</sup> and agricultural exporters. In this sense, the events of the 6th of February 1989 -the run against the *austral* which led to hyperinflation and Alfonsín's resignation- are seen as a type of economic *golpe* (coup) (Majul (1990) and Garfunkel (1990)). The government's failure is explained in terms of a series of technical economic problems, while its downfall is primarily explained due to domestic opposition from some sectors of the upper bourgeoisie<sup>3</sup>.

In these accounts the external debt is studied principally as a problem which had little bearing on day-to-day 'domestic' economic decisions. However there are studies which focus on the negotiations between Argentina and its international creditors (Frenkel et al (1988), and Bouzas and Keifman (1990)). The relation between the GEN and the external debt, considering the role of the former in the accumulation of the Argentinian debt is studied in particular by Basualdo (1987). The aim of Basualdo's work is to show the 'political aspect' of the debt crisis. This analysis is significant since it attempts to go beyond the assumption that bad economic management (Volcker and Gyohten (1992)) or a conspiracy between bankers and military governments (Calcagno (1988)) was to blame for the debt. However, Basualdo's work ends in 1986, covering only three years of Alfonsín's government.

Other economic studies touch upon the influence of the process of democratisation on the resolution of the crisis (Machinea (1990); Canitrot (1991) and Palermo (1990)) suggesting that government policies towards the unions and the Armed Forces shaped economic policy.

Machinea's (1990) work is an exhaustive economic analysis which also discusses democratisation. Thus, he explains some of the economic policies in the framework of the political process. In particular, he emphasises the role of the Armed Forces as a political constraint upon economic strategy. However, he still separates the economy from political factors, only recognising that some political measures influenced economic strategy. Palermo (1990) emphasises the role of the confrontation with the unions and the business organisations to explain the failure of the *Austral* Plan. He compares it with the Bolivian case where the New Political Economy was launched with the total support of the business sector while union activity was banned. Palermo argues that the Argentinian case failed due to a lack of domestic support. In many ways Palermo's work is simplistic. The main criticism made by Canitrot (1991) is that Palermo totally ignores the Armed Forces as a political constraint. Canitrot (1991) argues that in order to explain the failure of the *Austral* Plan, an analysis of the role of the Armed Forces and the United States government -as a crucial support for the economic strategy and the democratisation process- must not be ignored. In his comment on Palermo's article, Canitrot (1991, p. 128) also highlights the significance of the confrontation with the unions as a constraint upon economic strategy. However, Canitrot does not analyse in sufficient depth the influence of political factors on economic strategy.

The work of Machinea, Palermo and Canitrot attempts to go beyond the characterisation of the Argentinian crisis as a series of technical economic problems and tries to study the influence of some political factors. However, they still view the 'economic' and the 'political' as two separate spheres, and thus, no attempt is made to



systematically relate the economic and political spheres or conceptualise their relationship.

The orthodox political studies of Alfonsín government suffer from a similar weakness. There is only a small bibliography covering the role of trade unions in the democratic government (Gaudio *et al* (1990); Beliz (1988); Fraga (1991); and McGuire (1992)). These works without exception are descriptive accounts of the relationship between the unions and the Radical government, and as such they fail to highlight the global aspect of the crisis facing Alfonsín.

The Radical government of 1983 was an historical exception in Argentina. Since the emergence of Peronism<sup>4</sup> in 1946, 'free elections'<sup>5</sup> had always resulted in a Peronist victory. The 1958 and 1963 elections, when Peronism was banned, were considered as 'illegitimate' by the unions. The *sindicalismo peronista*<sup>6</sup> (Peronist unionism) fought against the governments elected in 1958 and 1963, unleashing social unrest which ended in military coups. Thus, when Alfonsín came to power in 1983 his government had to coexist with a Peronist union movement which had previously helped bring down non-Peronist democratic governments. For Gaudio, Beliz, Fraga and McGuire this was the root of Alfonsín's confrontation with the unions.

Some of these works focus on the internal struggles of the *sindicalismo peronista* and the unions' relationship with the Peronist Party, arguing that the confrontation with the government was a way of reorganising the union movement and finding it a role in the democratic transition (Gaudio *et al* (1990) and McGuire (1992)). The most important contribution of these analyses is that they situate Radicalism and unionism in their historical contexts, and thus contribute towards understanding the historical roots of the confrontation, that is the role previously played by the unions in the fall of Illia's Radical government<sup>7</sup>. The Radical Party considered Illia's fall to be the result of an alliance between the unions and the Armed

Forces (Alfonsín, 1992). Although it is true that this alliance has not been conclusively demonstrated, it is beyond doubt that at least a part of the Peronist union movement has traditionally collaborated with military dictatorships (Abós, 1984).

The remaining studies which look at the relationship between the trades unions and the government focus on the level that social conflict reached under Alfonsín. The central role of the CGT in opposing the government is analysed holding that this role was based entirely on the former's desire for influence (Beliz, 1988). In this sense, Beliz' account can be characterised as pluralist since it analyses the influence of an 'interest group' over state policies. Even within the context of pluralist analysis, Beliz' is quite simplistic. He simplifies the role of the CGT as seeking only 'influence', while ignoring the economic context within which the struggle of the CGT must be understood. In addition, social unrest during the Alfonsín period is studied without looking in depth at the causes of the conflict (Fraga, 1991). Finally, it is important to recognise that the unions themselves have still not produced their own account of the Alfonsín years. Above all else, the literature on the role of the unions ignores the wider economic context and the position of the Argentinian state in the global political economy. In this sense, the analyses seem to understand the government's confrontation with the unions as a consequence of the endless opposition between the Radical Party and the Peronist Party. The political confrontation between *sindicalismo peronista* and the Radical government is divorced from the economic sphere. This is also true of the case studies which focus on the relation between the government and the Armed Forces.

The literature on the relation between the Radical government and the Armed Forces is small and undeveloped. It tends to focus on one of two themes: first, the government's policies on human rights violations (Fontana (1987) and (1989); Pion-Berlin (1991); Acuña and Smulovitz (1991); Fontana and Llenderrozas (1992) and Moneta *et al* (1985)); and second, internal divisions within the Army



(López (1987); Norden (1990); Boron (1987); Waisbord (1987) and Verbistky (1987)). These works analyse, principally the role of the Armed Forces in the democratisation process and their reaction towards the government's policy on human rights violations. However, these studies ignore the relation between the role of the Armed Forces in the democratisation process and the economic situation. Torre (1990a) commits a similar error by analysing the democratic transition in the context of economic crisis without deeply analysing the significance of the Armed Forces as a constraint in the transition process. Unfortunately, Torre's analysis still focuses its attention on the economic crisis merely pointing out the existence of some political constraints. All these analyses ignore the relation between the human rights violation policies and the economic crisis.

In a comparative study, Huntington (1993) recognises this relation arguing that the issue of human rights violations was left as a secondary priority after the failure of the *Austral* Plan and the re-emergence of high inflation. This led to the failure of the human rights violations policies since they needed broad popular support to succeed. When the economic crisis seemed to be impossible to resolve, Argentinian public opinion started to be more aware of inflation than of human rights violations. However, this is also a partial view since it looks at the influence of the economic situation on the human rights violations policies without taking into account the influence of the latter over the former. Thus, the existing analyses do not attempt to conceptualise the relationship between the Armed Forces, global economic crisis and the Argentinian state's relationship with the unions.

## II. Summary of the Thesis

This thesis intends to overcome these weaknesses. It argues that in order to understand the Argentinian crisis the economy and polity cannot be divorced. In this sense, the singular concept of 'economic crisis' or 'political crisis' is misleading. The

thesis is based on a conceptualisation of crisis as a crisis of the capital relation, understood as the crisis of a specific form of class domination, a crisis of accumulation which includes the totality of capitalist social relations within a national state boundary. In this sense, the study analyses the crisis of the whole social structure taking into account the main manifestations of the crisis, in its economic, political and social forms. Crisis is, in this sense, a crisis of the capitalist state, understood as an historical form of class domination (Holloway and Picciotto, 1977). When the state undergoes increasing fiscal, monetary and financial pressure to restructure social relations and to secure the reproduction of capital, and the institutional representation of capitalist and working class interests represents barriers to such restructuring -without providing any alternative resolution of the crisis-, an economic crisis becomes a political crisis (Clarke, 1988 and 1990). The state appears as the primary barrier to the resolution of the crisis and the realisation of the particular interests of both capitalists and working class. The response to this crisis is the restructuring of the state and of class relations. The driving force behind the restructuring is an attempt to resolve "the political crisis of the state by trying to disengage the state politically from the economy so as to depoliticise economic policy formation" (Clarke, 1990, p. 27). This is achieved by 'monetarism' where money replaces the state as the agent of restructuring, the money form is imposed on the state, and large sections of the public sector are privatised. The significance of these measures is that they attempt to resolve the political crisis of the state by restructuring the state and the working class (Clarke, 1988). Clarke argues that, although the state appears as the primary barrier to the resolution of the crisis, the ultimate barrier is the strength of the working class. This argument is demonstrated throughout this thesis.

The strength of the Argentinian working class, together with the activities of the armed urban guerrilla led to the 1976 military dictatorship. The main objective of the dictatorship was to implement a *disciplinamiento social* <sup>8</sup> which included



subordinating the working class in both economic and political spheres. This 'restructuring' of Argentinian social relations was finally achieved, through the adoption of 'monetarism', giving money and market the power to discipline society. The analysis presented in this thesis of the economic structural reform applied by the dictatorship and its consequences supports this interpretation.

The condition for the resolution of the crisis of the state is "the gradual, cumulative and simultaneous restructuring both of the state and of the working class" (Clarke, 1990, p. 27). This is the main theme of the thesis. It intends to show the restructuring of the Argentinian state from the military dictatorship to the 1983-1989 democratic government. The thesis overcomes the partiality of the economic and political analyses mentioned above, and attempts to discover the reasons why the Argentinian democratic government failed to successfully deal with the legacy of the military dictatorship. It argues that the reasons must be found in the crisis of the Argentinian state, and in particular in the state's relationship to the working class and the global economy.

The thesis highlights the paradoxical situation inherited by the 1983-1989 democratic government. While the ensuing economic crisis could not be adequately tackled without intensifying the military dictatorship's *disciplinamiento social*, beyond the economic sphere objectives had to be oriented towards the restoration and consolidation of democracy. The new democratic government had to confront rising inflation, recession, and a fiscal crisis, deepened by the burden of the external debt, which significantly reduced the capacity of the government to act. The democratic government was expected to resolve the economic crisis. At the same time, it was expected to restore political rights and to consolidate democracy. It was also expected to punish the Armed Forces' violations of human rights. Democracy was, thus, awaited as the solution for the Argentinian crisis. However, all these demands proved to be incompatible. As the thesis illustrates, democracy brought about political rights together with greater poverty. The process of implementing market-oriented

reforms provoked serious pressure on the new democratic government, making the consolidation of democracy more difficult.

Thus, the thesis analyses the restructuring of the Argentinian state during the 1983-1989 democratic government and concludes that during this time, paradoxically, the consolidation of democracy was accompanied by a deepening of the military dictatorship's *disciplinamiento social*.

### III. Plan of the Thesis

The thesis is divided into seven chapters. As it analyses the crisis of the Argentinian state, the first chapter reviews relevant aspects of contemporary state theory. It is not a review of all approaches to the state. Rather it is an analysis of some of the main approaches to understanding the development of the capitalist state, its relation to economic policy and the notion of crisis. It draws in particular on Marxist approaches to the development of the capitalist state in the context of the globalisation of capital to highlight the influence of global capital in the making of domestic economic strategy.

The second chapter is an historical account of the economic and political situation of the 1950s, 1960s and early 1970s. It highlights the development of the crisis of the Argentinian state which ultimately led to the 1976 military dictatorship.

The third chapter analyses the economic structural reform applied by the 1976 military dictatorship. The main objective of this reform was to discipline society. The chapter highlights the main legacies of this reform for the incoming democratic government. It also studies the causes of the collapse of the military dictatorship and the transition process to discover how the collapse and the transition would influence the democratic government.



The fourth chapter analyses the first two years of Alfonsín's government. It studies the first policies applied by the government to confront the main legacies of the dictatorship, namely the policies towards the external debt and the domestic economic strategy, and the policies towards the unions and the Armed Forces. It shows that the government attempted to constrain the unions by controlling their internal elections. As this strategy failed, the government sought to achieve a social and economic agreement with the unions. However in turn this strategy also failed. Regarding the Armed Forces, the government tried to apply its 'due obedience' proposal but this also came to grief due to the pressure of the Judiciary and the organisations for human rights since they believed that the 'due obedience' was a 'hidden amnesty'. Thus, the government could not execute its own policies towards the Armed Forces. Lastly, the chapter deals with the treatment of the external debt, the most significant issue in the economic sphere. It also analyses the reasons for the failure of the first economic strategy of the democratic government. In summary, it shows how the failure of the external debt negotiations and of the domestic economic strategy prepared the ground for the launching of the *Austral* Plan.

The fifth chapter studies the development of the crisis from the launching of the *Austral* Plan to the 1987 electoral defeat. It describes the main objectives and features of the economic reform. It also assesses the subsequent economic plans which were applied after the failure of the *Austral*. In the context of such economic reform, the chapter analyses the attempts of the government to control the unions. It analyses the main causes and consequences of the appointment of Carlos Alderete, from the Light and Power union, as Labour Minister. By this time, Argentina had undergone its first military rebellion. The chapter examines the development of the crisis in the light of these three main events: the launching of the *Austral*, the temporary agreement with the unions and the first military rebellion.

Chapter six analyses the last two years (1987-1989) of the democratic government when the economic crisis was at its peak. While in this period the degree of confrontation with the unions declined, the government was confronted by two military rebellions and a significant guerrilla attack on an army unit. This prompted speculation that another economic crisis would end in a political crisis and, as historically, in a military coup; however, the 1989 general elections and Alfonsín's resignation were peaceful events. The chapter examines the increasing economic crisis and the role of the unions and the Armed Forces as the historical barriers to the restructuring of the state. The chapter also charts the main economic and political consequences of Alfonsín's government.

The final chapter concludes on the development of the crisis of the Argentinian state under the democratisation process and examines the reasons why the crisis could not be resolved by the 1983-1989 government. It also highlights the implications of this thesis for state theory, commenting on the relevance of its main approaches to the analysis of the development of the capitalist state, its social relations and its relations to global capital. There are three appendices in the thesis. The first offers basic statistics of the Argentinian political economy. The second is a list of Cabinet ministers in Alfonsín's government. Finally I offer an account of how I tackled the research process.

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<sup>1</sup> The Radical Party, founded in September 1889, had as its main objectives the demand for honest elections, real representation and the establishment of universal male suffrage. In 1916, after the Sáenz Peña law of 1912, that guaranteed a secret ballot and universal manhood suffrage, Hipólito Yrigoyen, leader of the Radical Party, was elected President. His successor, Marcelo T. de Alvear, was also from the Radical Party. Yrigoyen was elected President again in 1928. In 1930 the first military coup ended with fourteen years of democracy. After the appearance of Peronism in 1946, the Radical Party could only win elections from which Peronism was proscribed. In 1957 the Radical Party split into two new parties: one led by



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Arturo Frondizi, *Unión Cívica Radical Intransigente*, and the other by Ricardo Balbín, *Unión Cívica Radical del Pueblo*. In 1958 Frondizi with the support of Peronism became President. In 1962 a military coup interrupted Frondizi's presidency and called for elections in 1963. Arturo Illia, from the *Unión Cívica Radical del Pueblo*, won the elections. Due to the proscription of Peronism and Perón's advice to his followers to abstain, with only 25 percent of the total vote cast Illia was appointed President. In 1966 a military coup interrupted his presidential period. In 1973, Raúl Alfonsín organised an internal movement of the Radical Party for the presidential nomination for the approaching elections. The *Movimiento de Renovación y Cambio* lost the internal elections, and so, Ricardo Balbín was nominated presidential candidate of the Radical Party. He lost the general elections. Alfonsín tried to push Radicalism to the left to oppose the struggle begun by President María Estela Martínez de Perón (Isabel) to left-wing trade unions but Balbín opposed him. Under the 1976 military dictatorship, Alfonsín became an ardent defender of human rights. Balbín died in September 1981 and, after internal elections, Alfonsín became the presidential candidate of the Radical Party for the 1983 general elections. For more detailed accounts see Rock (1975), Wynia (1992), del Mazo (1959), Luna (1958), and Puiggrós (1957).

<sup>2</sup> These groups have been defined by Kosacoff (1989, p. 18) as those national companies created in the 1950s that, during the 1970s, started a diversification process and achieved investment in the financial sector and in foreign countries. Generally, they have also created a new company through their association with foreign companies. These groups are, for instance, Bidas, Perez Companc, Macri, Bunge y Born, and Techint. For a detailed historical account of these groups see Azpiazu *et al* (1986), Acevedo *et al* (1990), Sguiglia (1991), Basualdo and Khavisse (1993), Majul (1992) and Ostiguy (1990).

<sup>3</sup> The upper bourgeoisie is formed by the transnationalised and the *pampeana* bourgeoisie while the lower bourgeoisie is referred to as 'domestic'. The transnationalised bourgeoisie is constituted by the larger fractions of urban private capital (monopolistic or oligopolistic), both national and transnational, very much related to international capital. The *Pampeana* bourgeoisie is defined as the biggest landowners from the *pampa* (the most productive agricultural sector in Argentina) also related to international capital since they mainly export their production. The 'domestic bourgeoisie' is the fraction, mainly from the industrial sector, which is



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not internationally oriented and is constituted by national owners of small and medium size industries (O'Donnell, 1978, p. 26).

<sup>4</sup> Peronism emerged as a consequence of Colonel Juan Doming Perón's policies in the Secretary of Labour from 1943 to 1945. As indicated below, Perón, from his position, benefited the workers economically and socially. This made him the leader of the workers movement, which until 1943 had been very weak. Perón also promoted the unionisation of workers, making the trades union movement the arbiter between the workers and the state. Besides, through unionisation the workers achieved more social benefits and became politically organised. I deal in more detail with the emergence of Peronism in chapter two.

<sup>5</sup> Free elections meaning without the proscription of political parties, especially, Peronism.

<sup>6</sup> As indicated earlier, Perón promoted the unionisation of the working class. By organising the trades union movement, Perón became also its main leader. This gave rise to a 'Peronist trades union movement' which remained loyal to Perón even after his death. I deal in more detail with the notion of *sindicalismo peronista* in chapter two.

<sup>7</sup> President Arturo Illia, who won the 1963 elections with only 25 percent of the total vote cast due to the proscription of Peronism, had to face an intense and endless struggle with the trade unions against his policies. Strikes and sit-in's undermined the power of an already-weak government and prompted the return to a military dictatorship (Wynia, 1992).

<sup>8</sup> Canitrot (1981, p. 132) emphasises that the 1976-1981 economic programme had a political objective: the *disciplinamiento social* (social discipline) which means the weakening of the working class which has become politically powerful through the Peronist Party. I analyse in detail the *disciplinamiento social* in chapter three.

## Chapter 1

### The capitalist state, economic policy and global capital

#### Introduction

The purpose of this chapter is to analyse the relation between the state and economic policy in the current context of global capital, and to conceptualise crisis and the 'monetarist' restructuring of the state, as these are the central theoretical themes of this thesis. It does not present a complete review of the literature on contemporary state theory, rather it is an analysis of some of the main approaches in order to define which of them is most suitable for the purpose of this thesis. In the first section, I will analyse pluralism, statism, the Miliband/Poulantzas debate and some studies in the context of contemporary state theory debates. In the second section my principal focus is on Marxist accounts of the internationalisation of capital, its relationship to the capitalist state, and the notion of crisis and the 'monetarist' restructuring of the state. The conclusion highlights the inadequacies of some of the aforementioned approaches and presents an alternative approach suitable for the objectives of this thesis. The theoretical framework of this thesis draws on, and develops recent 'open Marxist' approaches to state theory.

#### I. One isolated capitalist state?

##### *i. The pluralist approach*

Pluralist<sup>1</sup> theories of the state are, in fact, approaches to liberal democratic models of government. The state itself does not figure prominently in pluralist accounts;



for, in discussing the state, pluralists refer to the government or state officials. Pluralists do not recognise the government as one part of the state apparatus; instead they theorise about government rather than the state. "They normally refer to the state empirically as discrete organisations (such as the courts, the civil service and public enterprises) or instead refer loosely to 'bureaucracy' including all those parts of the state outside the 'political' or 'elected' government" (Dunleavy and O'Leary, 1987, p. 42). The state is seen as "the broker, the cipher, the switchboard, or the weathervane which acts in accordance with the balance of interest groups in society" (McLennan, 1989, p. 22). Despite this conceptual gap between state and government, pluralist accounts have contributed to developing the study of the dynamics of group politics or interest groups.

The first assumption of pluralist writers is the fragmentation of power and the existence of many power centres. Power is viewed as "A's capacity for acting in such a manner as to control B's responses" (Held, 1987, p. 189). Furthermore, as Held (1989, p. 45) defines, "it is also an inextricable part of an endless process of bargaining between numerous groups". Thus, from the pluralist point of view there are two important elements in society: individuals and organisations. Politics is concerned with sets of individuals maximising their common interests through the creation of different groups. These interest groups are organised around "economic or cultural 'cleavages' such as social class or religion; but they may also be single-issue affairs about schooling or local concerns about leisure and the environment" (McLennan, 1984, p. 83). The interest group articulates "the claims and the needs of society and transmits them into the political process" (King, 1986, p. 115). Power is distributed between groups and any group can be organised and be sure that its interests are taken into account by the government. Pluralism fails to consider the differences between the power centres in society. It is easy to assume, from many pluralist accounts, that all interest groups have the same power and so the same opportunity to press their demands on the government. Pluralist accounts often fail to see that in capitalist societies 'some



are more equal than others'. This is partially recognised by Dahl (1978, p. 198), although, he still retains the same conceptual approach.

The main assumption of pluralist writers is that individuals organised as interest groups can influence state policies. They have power to achieve their aims, the most important of which is the transformation of their shared interests into state policies. Thus, pluralism sees economic policy as an outcome of the pressure from different interest groups. Hence, interest groups become essential in democracies because they can counteract independent actions of politicians. Therefore, pluralist approaches see a powerless state confronted by powerful interest groups. The state is viewed as an arbiter or a judge between these groups or factions. It is also considered to be a neutral arena, a place where various interest groups can compete to influence the government.

Pluralism can thereby be summarised as offering:

"-a sociology of competing interest groups; -a conception of the state as a political mechanism responsive to the balance of societal demands; -an account of the democratic civic culture which sets a realistic minimum measure for the values of political participation and trust; -an empiricist and multi-factorial methodology of social science" (McLennan, 1989, p. 18).

In this sense, pluralism does not constitute a theory of the state, merely a description of the ideal workings of liberal democratic governments. Indeed, although pluralism has contributed to developing a new point of view with regard to capitalist societies, it looks at society more than at the state. Pluralists recognise a fragmented society because of the interests of individuals. They attempt to study the participation of individuals in a democratic society through interest groups. Pluralism is not a theory of the state since it emphasises the relationship between interest groups and the government instead of the state, and it stresses the part of society which *has* the power, and, of course, neglects the global system.

On a political level, pluralism failed to predict the inequality which has emerged in capitalist societies since the 1970s. It cannot adequately explain the reasons why some interest groups are more successful than others. At the heart of pluralism lies a tautology: interest groups are powerful because they influence state policies, and they influence state policies because they are powerful. The empiricism of considering powerful interest groups does not explain the role of the state and its relation to economic policy. Pluralist accounts study an obvious fact, that is, the unequal distribution of power in society but they neglect to analyse what is behind this fact.

Finally, an approach developed to study the capitalist democratic state cannot be applied to those capitalist states which are not democracies. This is the case in this thesis. Argentina was not a democracy but a national state undergoing a transition from authoritarian to democratic rule. Therefore, given its emphasis on liberal democracy, pluralism can not be applied to most of Latin America, Africa or Eastern European countries.

In response to the weakness of pluralist accounts, western Marxists writers in the 1960s tried to go further in understanding the capitalist state. The analysis of the debate between Miliband and Poulantzas is an essential reference point for understanding contemporary Marxist state theory.

### *ii. Miliband-Poulantzas debate*

Miliband (1969) regards the state as a set of institutions with complex relations among them. The government, the administration, the military and the police, the judicial branch, sub-central government and parliamentary assemblies are the institutions "which make up the state, and whose interrelationship shapes the form of the state system" (Miliband, 1969, p. 50). The power of the state is exercised through



those institutions. The state elite is constituted by the people who occupy the leading positions in these institutions.

As Miliband believes that a theory of the state "is also a theory of society and of the distribution of power in that society" (Miliband, 1969, p. 4), he emphasises the study of the relation between the state system and the dominant class. Therefore, his objective is to demonstrate, through an empirical study, the relationships which exist between the state system and the dominant class. In other words, to identify the people who occupy the leading positions in the state system.

As he demonstrates, the ties between the dominant class and the state system are essential in advanced capitalist societies (Miliband, 1969, p. 45). Through that fact, he also demonstrates how power is distributed in a capitalist society. Power for him is linked to ownership and control of the means of production (Miliband, 1969, p. 16). He recognises the existence of a dominant economic class which exercises its power by its ownership and control of the means of production, as a consequence this class also controls the means of the political decision-making process (Miliband, 1969, p. 61).

Furthermore Miliband points out the existence of a division between the ownership and the control of the means of production. This division creates managerialism. Managers are those who have the control of the means of production without being its owners (Miliband, 1969, p. 37). He emphasises this separation and studies the social composition of managers. Managers belong to the upper and upper-middle classes. They become an elite of the dominant class by controlling the means of production (Miliband, 1969, p. 37). Therefore, he tries to explain the distribution of power in advanced capitalist societies by looking at both the ownership as well as the control of economic wealth. Thus, the state system is not a neutral arena since politicians and civil servants belong also to the upper and upper-middle classes. Therefore unlike the pluralists he criticises, Miliband sees the state as capitalist because of the class character of state officials.

In contrast, Poulantzas (1973) argues that the main role of the capitalist state is to reproduce the conditions of production for capitalism which rest on the reproduction of capital, thus the class character of state officials is deemed to be beside the point.

Poulantzas sees the state and social classes as objective structures. Their relations form an objective system of regular connections "a structure and a system whose agents, men are in the words of Marx, bearers of it..." (Poulantzas, 1973, p. 295) As in hard 'structuralist' readings of Marx, Poulantzas believes that the distinctive criterion for membership of the capitalist class is "the objective place in production and the ownership of the means of production" (Poulantzas, 1973, p. 296). The differences and relations between fractions of capital should, Poulantzas argues, be the central point in a Marxist analysis.

Regarding the state, Poulantzas views it as "the factor of cohesion of a social formation and the factor of reproduction of the conditions of production of a system that itself determines the domination of one class over the others (Poulantzas, 1973, p. 298). He emphasises the idea of the relative autonomy of the state from the ruling class. The state "in order to be able to organise the hegemony of the whole of the ruling class" (Poulantzas, 1973, p. 300) has to be relatively autonomous from the diverse fractions of this class and the class as a whole. Since he views the state "as the instance that maintains the cohesion of a social formation and which reproduces the conditions of production of a social system by maintaining class domination" (Poulantzas, 1973, p. 304), he sees it as an objective system with its own logic and isolated from influences of the ruling class and its fractions.

The first point that Poulantzas (1973) stresses about Miliband's work is that for Miliband social and political phenomena are reduced to the level of inter-personal relations. Social classes are understood in terms of inter-personal relations; the state is also reduced to inter-personal relations among the members of the groups which



constitute the state apparatus; and the relation between social classes and the state is reduced to inter-personal relations between individuals of social groups and individuals of the state apparatus (Poulantzas, 1973, p. 295). He argues that Miliband is using the epistemological principles of Max Weber and of contemporary elite theory and his use, albeit in a radical context, legitimises these concepts (Poulantzas, 1973, p. 295).

Poulantzas (1973, p. 295) also criticises the concept of managerialism, because of his belief in the ownership of the means of production and the position in the production process as the only real criteria for defining the members of the capitalist class.

Regarding the question of bureaucracy he argues that "the *direct* participation of members of the capitalist class in the state apparatus and in the government, even where it exists, is not the important side of the matter"<sup>2</sup> (Poulantzas, 1973, p. 298). For him, there is an objective relation between the bourgeois class and the state. Therefore, the coincidence between the function of the state and the interests of the dominant class is an effect of the system itself. Poulantzas argues that the problem of the state apparatus is the problem of bureaucracy. The objective function of bureaucracy is to reproduce the role of the state. Therefore, bureaucracy is the servant of the ruling class "by reason of the fact that its internal unity derives from its actualisation of the objective role of the state. The totality of this role itself coincides with the interests of the ruling class" (Poulantzas, 1973, p. 299).

Regarding the issue of the branches of the state apparatus, Poulantzas proposes that "the state apparatus forms an *objective system* of special 'branches' whose relation presents a *specific internal unity* and obeys, to a large extent, *its own logic*"<sup>3</sup> (Poulantzas, 1973, p. 301). Therefore, he rejects Miliband's argument that one of these branches (government, army, police, judiciary or civil administration) predominates over the others because either its members are nearest to the ruling class or the branch itself has an immediate economic role.

Finally, according to Poulantzas, the fact that Miliband "replies to bourgeois ideologies by the immediate examination of concrete fact" (Poulantzas, 1973, p. 239) is a revealing weakness in his methodology.

Miliband's replies to Poulantzas' critique are weak. Miliband (1973, p. 308) mainly argues that it is a problem of emphasis. He stresses the question of managerialism recalling the idea of the ideology of the managers. Through this concept he tries to show the ties between managers and the ruling class. For him, Poulantzas' analyses are structural super-determinist "which makes impossible a truly realistic consideration of the dialectical relationship between the state and the system" (Miliband, 1973, p. 311).

There are two central points, important for this study, in the Miliband/Poulantzas debate: the relation between theoretical and empirical study and the definition of the state and its relation to civil society.

Regarding the former, Poulantzas' arguments on the impossibility of using concrete fact in order to criticise a theory are misguided. Theory should not be isolated from the real world if one views theory as an instrument to explain, to describe and to understand the real world. Marx's theory is also the result of his observations of empirical reality. As Rubin (1972, p. 91) put it "the power of Marx's theory does not reside in its internal logical consistency as much as in the fact that the theory is thoroughly saturated with complex, rich socio-economic content taken from reality and elucidated by the power of abstract thought". Theoretical and empirical studies exist at different levels of abstraction which does not mean that one is more comprehensive than the other. There should be a deep connection between both in order to develop integrated knowledge.

Poulantzas defines the state as an objective structure and he argues that "if the function of the state in a determinate social formation and the interests of the dominant



class in this formation coincide; it is by reason of the system itself" (Poulantzas, 1973, p. 298). According to this argument it is irrelevant that the members of the ruling class participate in the state apparatus. The state as "the factor of reproduction of the conditions of production of a system" (Poulantzas, 1973, p. 298) has the objectively acquired role of maintaining the system. Therefore, he sees the state as a rational structure with a specific and clear objective. His definition of the state becomes deterministic in the sense that, as a structure which is above the society, the state seems to be isolated from any kind of demands from society, including those of the capitalist class. Moreover, for him the individuals who occupy positions in the state apparatus are absolutely irrelevant and have no power at all. Poulantzas sees the state as an objective system which means that he adopts, in a sense, a view of the state as a unified and rational actor. Clarke (1991a, p. 98) argues that Poulantzas' conception of the social structure can be characterised as structural functionalist in the sense that the state is a class state because it is the state of a structure in which a class is dominant and so it is a state which reproduces that dominance. The state expresses the existing relations of power between classes in struggle, and is the arbiter of conflicting interests. This position assumes that capital has *a priori* needs which are achieved by the state. In this sense, Clarke argues that Poulantzas reproduces the substantive theoretical positions of bourgeois sociology (1991a, p. 99).

On the other hand, Miliband's analyses are trying to show how the state works within a society. He sees the state as a fundamental part of the life of the society and he shows the connections between both. The state itself has no objective role in Miliband's arguments. He places more emphasis on the relation between the people who occupy the state than the state as an objective structure. Miliband's arguments are more useful for understanding the capitalist state and its society since the state must not be understood as an objective structure above society. However, his weakness is to imply that the state is capitalist because its officials belong to the capitalist class. The class nature of the capitalist state does not derive from the class position of its officials, rather it derives



from historical struggles which established the 'separation' of the state from civil society with the demise of the feudal form of class domination. I expand upon this notion of the capitalist state below.

Regarding the relation between the state and economic policy, Miliband's approach implies that the state follows an economic policy decided by state officials, who, belonging to the capitalist class will, pursue an economic policy according to its interest. Poulantzas' analysis argues that the state has as its main objective the reproduction of capital, and thus, its economic policy will be oriented to such a purpose. Both approaches seems to be quite simplistic in this regard. The capitalist state, I will argue, is a historical form of class domination, and it is therefore class struggle which influences the historical form of the state. Thus, the economic policy of the capitalist state is neither an outcome of the class character of its officials nor of the 'pure' objective of the reproduction of capital. Rather it is primarily an outcome of intense political struggle which is an aspect of domestic and international class struggle.

Both Miliband and Poulantzas, failing to make an historical analysis of the state, argue that the state exists in one level and the economy in another level<sup>4</sup>. Miliband's analysis provides a useful framework to understand the origins of the class character of state officials, however such a framework does not help to understand the development of the form of the capitalist state. From Miliband's point of view, the nature of the capitalist state is reducible to the class character of state officials. Therefore, regarding the relation between the state and economic policy, the capitalist state pursues capitalist objectives due to the class character of its officials. Regarding the Argentinian case during the democratisation process the relation seems to be much more complicated, with the external debt crisis a major feature of the period. Besides, Miliband's analysis is aimed at advanced capitalist societies where state officials play a significant role. This is not the case of a country which was jumping, in the last fifty years, from authoritarian to democratic governments and back again. Therefore, Miliband's analysis could not be applied for the majority of Third World countries. Thus, his study, rather



than being a state theory, is an analysis of the class character of state officials in advanced capitalist societies. On the other hand, Poulantzas' analysis remains so abstract that it does not provide a satisfactory basis to analyse concrete situations such as Argentina's. In this sense, as both failed to make an historical analysis of the capitalist state, their approaches remain unhelpful in analysing the particular national form of the capitalist state and its relation to economic policy. Furthermore, both fail to take into account the international state system, therefore, they see the capitalist state in a singular, isolated sense. Because of these weaknesses, they are not suitable for the purpose of this thesis.

The statist approach was a non-Marxist reply to the Miliband/Poulantzas debate and has since developed into an important school influencing a number of neo-Marxists such as Fred Block (1977; 1980; and 1991).

### *iii. Statist analyses*

The main attempt of the statist approach is to place the state in the centre of political and sociological analysis and to propose a different road to study the state. Their method is "through analytical induction and historically grounded comparisons" (Evans *et al.*, 1985, p. 347). This method implies that there is a "juxtaposition of Weberian understandings of the state with propositions drawn from recent neo-Marxist theories" (Evans *et al.*, 1985, p. 348). They explore such ideas through comparative and historical research.

Statism seeks to reconcile the differences in the recent state debates between neo-Marxist and neo-Weberian approaches. For statism, neo-Marxist literature has centered the analysis of the state on the question of state autonomy; and neo-Weberianism has emphasised the study of strong states versus weak states. For the Weberian tradition, a strong state should be close to Weber's ideal type of rationalised

bureaucracy. Neo-Marxism alternatively considers strong states as those which have a "domestically and internationally potent capitalist class, well served by 'its' state organisations" (Evans *et al.*, 1985, p. 351). Regarding state autonomy, statism adopts the Weberian conclusion that the bureaucracy's success in applying its policy signifies an autonomous state, while social groups' control over the implementation of policies means less state autonomy.

Theda Skocpol, one of the main representatives of statism, defines 'state autonomy' as the potential capacity of states to formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society (Skocpol, 1985, p. 9). She emphasises the exploration of the 'capacities' of the state to implement such goals over the actual or potential opposition of powerful social groups "or in the face of recalcitrant socioeconomic circumstances" (Skocpol, 1985, p. 9). Therefore, she recognises that state elites are free of dominant class' pressure and "such autonomous state contributions happen in specific policy areas at given historical moments" (Skocpol, 1985, p. 13). As the state is understood as autonomous and its capacities to pursue its policies vary, the state is influenced to a variable degree by social group pressure. While it is true that the state is influenced, what it is *essential* to understand are the *reasons* for the 'variable degree' of the influences. It is also essential to know *how* the state is free of alliances during the time of autonomy, but Skocpol does not explain this. In her analysis the state appears over society and isolated from it. It could be that the state had broken its alliances during the time of 'state autonomy' or that the state had won the interest struggles between state elites and the ruling class. However Skocpol does not offer an explanation for this, taking state autonomy as a given fact.

The state, she argues, can influence "the meanings and the methods of politics for all groups and classes in society" (Skocpol, 1985, p. 28) but, on the other hand, she suggests that no one can influence the state's policies. She rejects the idea of ~~an~~ strong relationship between state elites and the dominant class and sees the state as autonomous;



thus, she does not take into account struggles within the state. In other words, she does not pay sufficient attention to the struggles between state elites and the dominant class nor that within state elites. Evidently, she does not give any importance to class struggle.

Through her analysis of the New Deal, Skocpol tries to demonstrate that neo-Marxist approaches are insufficient to understand state's policies and its outcomes. She uses three different approaches: instrumentalist, political-functionalist and class struggle.

As an instrumentalist analysis she uses Miliband's book *The State in Capitalist Society* (1969). She argues that the primary purpose of this book is to show that pluralist analyses underestimate the influence of the capitalist class. She includes Miliband in the theorists of corporate liberalism and argues that Miliband believes that when a crisis of accumulation takes place "capitalists can be expected to act as a class" (Skocpol, 1980, p. 161). Skocpol argues that although the New Deal's measures were favourable in the long-term for capitalists, in the short-term they could not see its favourable effects and they fought against some of the measures. Thus, she tries to show that capitalists did not act as a class in the case of the New Deal. Not because they were unable to; but because they did not see the positive side of the New Deal. Therefore, it could be argued that if they would have seen the positive side of the New Deal they would have acted as a class. On the other hand, she recognises that "these measures were accepted by most corporate capitalists in the US" (Skocpol, 1980, p. 168). Therefore, Skocpol's arguments are not clear when she tries to demonstrate why the instrumentalist view cannot explain the case of the New Deal.

Political functionalism is the second view that Skocpol criticises, focusing on Poulantzas' work. She recalls Poulantzas' definition of the state as "the factor of cohesion of a social formation and the factor of reproduction of the conditions of production of a system" (Skocpol, 1980, p. 170). She argues that Poulantzas believes that the intervention of a relative autonomy of the state ensures that the political system pursues



capitalists' interests. Therefore, she affirms that "Poulantzas' capitalist state is basically a vehicle of system maintenance" (Skocpol, 1980, p. 171). Furthermore, she sees in Poulantzas' functionalist theory the existence of a centralised, bureaucratic administrative apparatus which intervenes economically in order to reach capitalist class interests.

Regarding the state's 'relative autonomy', she points out that Poulantzas' theory is wrong because the state's capacity depends on historical circumstances. Moreover, for her, Poulantzas does not take account of the "potential democratic responsiveness of elected politicians in all capitalist democracies" (Skocpol, 1980, p. 180). These are the main reasons why political functionalism could not explain the New Deal's measures. However, following her argument that the New Deal measures in the long-term were favourable for the capitalist class, it could be argued that the state's relative autonomy made possible the application of measures which were favourable for the capitalist class in the long-term, although they were negative in the short-term. But, if this is her point, then the New Deal could be explained through Poulantzas' definition of the state as *the factor of reproduction of the conditions of production of a system*.

Block's (1977) theory is the last point of view that Skocpol analyses in her article. Block's main argument is that there exists a division of labour between capitalists and state managers. He states that capitalists are not conscious in the long-term about what is necessary to reproduce the accumulation of capital, and state managers are "specially sensitive to the overall state of 'business confidence'" (Skocpol, 1980, p. 183). During exceptional periods such as economic depressions or wars, state managers have more autonomy because 'business confidence' normally declines.

Skocpol argues that Block's arguments are at a high level of abstraction and he "does not investigate existing state structures as constraints upon what state managers can do when they attempt to facilitate capital accumulation" (Skocpol, 1980, p.184). She seems to find an important contradiction in Block's arguments. Regarding the



capacities of state managers to apply their policies, she quotes two paragraphs of Block's work: "they are capable of intervening in the economy on the basis of a more general rationality. In short, their structural position gives the state managers both the interest and the capacity to aid the investment accumulation process" (Skocpol, 1980, p. 190). On the other hand, "state managers can make all kinds of mistakes, including excessive concessions to the working class. State managers have no special knowledge of what is necessary to make capitalism more rational: they grope toward effective action as best they can within existing political constraints and with available economic theories" (Skocpol, 1980, p. 190). There is no contradiction between these arguments although Block says that state managers *are capable of acting* this way because of their structural position, he does not say that *they will necessary do it* perfectly. State managers are potentially capable but they can make, as Block says, all kinds of mistakes. Moreover, Block, contrary to what Skocpol is arguing, takes account of political constraints and available economic theories.

Skocpol concludes by arguing that the state is an organisation of political domination, with its own structure, its own history, and its own patterns of conflict and impact upon class relations and economic development (1980, p. 199). Finally, she states that the New Deal changes "were not fully intended by anyone, were not consistently in conformance with the interests of any class, and were not smoothly functional for the system as a whole" (Skocpol, 1980, p. 201). The changes were the product of political struggles, undertaken within given "structures of political representation and domination" (1980, p. 201). The structures are the key to understand political response to economic crisis within capitalism.

The main weakness of Skocpol's argument is her conception of 'state autonomy'. The potential capacity of states to formulate and pursue goals that are not reflective of the demands or interests of social groups, classes, or society implies that the capitalist state is an isolated structure which is above society. In this sense, she sees the state as a unified and rational actor pursuing policies for the long-term 'national interest'. She

fails to conceptualise the nature of the capitalist state. This is so, because Skocpol does not make an historical analysis of the development of the capitalist state. Her arguments are rather an attempt to build up a framework to understand some policies in a given moment. However, her emphasis on 'state autonomy' makes her arguments misguided. The capitalist state, as I will argue, is in no sense autonomous.

Finally, Skocpol's arguments imply that the state is capable of implementing a specific economic policy which might not be supported by any social group. The empirical account of this thesis rejects this view. Indeed, Argentina's case shows the incapacity of the state to implement an economic strategy without either domestic or international support. This is so because, as Cammack (1989, p. 263) suggests, state and society are not separate polar opposites. Skocpol denies in practice the presence of classes and class struggle within the state, for this reason she concludes that the state has the capacity to act without support. However, as I will argue, the study of the capitalist state cannot ignore class struggle.

An equally influential statist approach is found in Krasner's *Defending the National Interest* (1978) which tries to demonstrate that, in order to understand and to explain state actions, a statist approach is more comprehensive than liberal or Marxist approaches.

Krasner believes that "states (defined as central decision-making institutions and roles) can be treated as unified actors pursuing aims understood in terms of the national interest" (Krasner, 1978, p.12). He defines the national interest in an inductive way as "the preferences of American central decision-makers" (Krasner, 1978, p. 13). These are the policy objectives. The implementation of policy demonstrates the "ability of the state to carry out its aims" (Krasner, 1978, p. 17). International and internal constraints have to be considered as well as the structure of the political system.



As the national interest is determined by following an empirical-inductive route, its definition is based on the behaviour of central decision-makers. Their preferences have to be related to general objectives and to persist over time. That being the case, Krasner argues their preferences make up the national interest. He rejects the logical-deductive route because of its stress on the preservation of territorial and political integrity arguing that "many economic questions are only remotely related to a state's political and territorial integrity" (Krasner, 1978, p. 41). He emphasises that an "inductive statist approach asserts that the national interest consists of a set of transitively ordered state preferences concerned to promote the general well-being of the society that persists over a long period of time" (Krasner, 1978, p. 45).

Krasner develops three ideal-typical relationships between the state and society in capitalist or market economy countries: 1) the state may be able to resist societal pressure, but unable to change the behaviour of private actors; 2) the state may be able to resist private pressure and to persuade private groups to follow its policies but be unable to impose structural transformation on its domestic environment; and 3) "a state may have the power to change the behaviour of existing private actors and also, over a period of time, the economic structure itself" (Krasner, 1978, p. 57). Following these three ideal-types and their combinations, he defines states as nonexistent, weak, moderate, strong and dominant, and recognises that the pattern of strength and weakness is different between state's issue areas. These three ideal-typical relationships might be useful to study the relationship between state and society in capitalist economies. However, there is a confusion here between state and government. Krasner is arguing about the government which is part of state apparatus. Therefore, this framework could be useful to study the relationship between *the government* and the society. The state, as I shall argue, is conceptually different from the government.

It has to be highlighted that Krasner incorporates the international system as a variable to take into account, moving his analyses away from those who analyse the capitalist state in the singular.

The main criticism that can be leveled at Krasner is that he sees the state -or more precisely, the government- as an unified actor. Further, he argues that state officials have clear and persistent objectives in some areas at a given moment. Krasner also sees some state's agencies, for instance the White House and the State Department in the United States of America, as isolated from society and from other state agencies. Therefore, they can define the national interest without taking account of the demands of society. The second criticism of this view is thus that an autonomous state could degenerate into an authoritarian state in order to promote the well-being of the society. This threat to democracy, in Krasner's arguments, arises because the well-being of the society is defined by the state's agencies.

However, Krasner's emphasis on the role of state officials indicates that his study is not applicable to the Argentinian case. After so many changes from authoritarian to democratic governments, Argentinian state officials do not have a historically significant role. This is also the case of most of the Third World countries which almost without exception go from military dictatorships to democratic governments. Therefore, Krasner's analyses are very related to the United States government and so can not be considered as constituting a general capitalist state theory.

Indeed, statism rather than offering a capitalist state theory, is an approach to study certain policies pursued by governments of advanced capitalist states. Finally, for the purposes of this thesis, the main weakness of statism is its inability to theorise the relationship between national states and global economy.



*iv. The contemporary state debate: Bob Jessop and Peter Hall*

In this part I will analyse two authors: Bob Jessop and Peter Hall. Their work attempts to enrich the state debate, and on many levels it enables us to build up a useful framework to study the capitalist state. Their importance lies in the guides they offer to understand the development of the contemporary capitalist state.

For Bob Jessop the state is a social relation which he defines as follows: "the core of the state apparatus comprises a distinct ensemble of institutions and organisations whose socially accepted function is to define and enforce collectively binding decisions on the members of a society in the name of their common interest or general will" (Jessop, 1990, p. 341).

The state can also be analysed as the site, the generator and the product of strategies. Jessop points out that the state can be viewed as a system of strategic selectivity, "as a system whose structure and *modus operandi* <sup>5</sup> are more open to some types of political strategy than others" (Jessop, 1990, p. 260). As the generator of strategies, the state is a space where strategies are elaborated, and so the problem that he emphasises is how the state acts as a unified political force. In this sense it is useful to study the different strategies and tactics through which state managers develop the coherence of state actions. Regarding the state as the product of strategies, Jessop refers to past political strategies and struggles.

Jessop also believes that a definition of the state should consider "the complex forms of articulation among state institutions and between the state and non-state institutions in the overall reproduction of capital accumulation and political domination" (Jessop, 1990, p. 340). Moreover, he sees the state as a form-determined social relation with its main feature, its particularisation from the immediate production process. The state's boundaries are recognised as ambiguous; the nature of the state, its institutions and organisations, depend on the nature of social formation and its past

history. The main task for state theorists is "to build up an understanding of the state as a form-determined social relation through a steady spiral movement from abstract to concrete and from simple to complex" (Jessop, 1990, p. 341).

Jessop points out that the state can never be neutral among all social forces and political projects. He also notes that "state power is capitalist to the extent that it creates, maintains or restores the conditions required for capital accumulation in a given situation" (Jessop, 1990, p. 354). In this respect, he emphasises the fact that there is no single logic of capital. Hence, as accumulation is the result of "the strategies pursued at different levels and on different sites within a given conjuncture" (Jessop, 1990, p. 354), it is necessary to add the historical dimension in order to understand the development of the state.

In order to articulate two systems like the capitalist economy and the capitalist state Jessop develops two notions: structural coupling and strategic coordination. The former "refers to the co-evolution of autonomous structures which share at least in part the same social space" (Jessop, 1990, p. 358); it refers to "the formal and substantive articulation of different structures treated as autonomous structures" (Jessop, 1990, p. 359). The structures have neither hierarchy nor subordination; they are dependent on inputs from their environment but these influences are mediated through the structure's own procedures. These features mean "that the development of a given autonomous structure is conditioned by its relation with other structures but follows its own logic" (Jessop, 1990, p. 359). The logic of the capitalist economy is the law of value; the logic of the capitalist state is state projects.

Strategic coordination "points towards the strategic dimension of co-evolution considered from the viewpoint of specific social forces or agencies" and "can only occur in the context of the uncontrolled and anarchic structural coupling of co-evolving structure" (Jessop, 1990, p. 359). It refers to "the strategic aspect of relations among systems and structures" (Jessop, 1990, p. 359). In other words this notion considers



the capacities and vulnerabilities in the relation between systems and structures. Therefore, the notions of structural coupling and strategic coordination take account of the capacities and vulnerabilities of the state and social forces.

The concepts of accumulation strategy and hegemonic project are also developed in the context of Jessop's arguments. Accumulation strategy refers to a specific economic growth model which takes account of its extra-economic preconditions. This strategy should unify the "different moments in the circuit of capital under the hegemony of one fraction" (Jessop, 1991, p. 160). It should also recognise national and international constraints as well as the balance of forces between the dominant and subordinate classes. It is wrong to think that only one accumulation strategy is followed and also only one tactic. Therefore, this plurality -especially of tactics- creates a margin of manoeuvre for non-hegemonic fractions.

He treats capital accumulation as "the contingent outcome of a dialectic of structure and strategies" (Jessop, 1991, p. 169). As structures are given, he says that "the development and pursuit of accumulation strategies reproduce and transform these structures within definite structural limits" (Jessop, 1991, p.169). The strategies, in order to be effective, must be adapted to the margin of manoeuvre inherent in the prevailing structures. Here, there is a contradiction that Jessop does not clarify: structures seem to constrain accumulation strategies despite his argument that there is a plurality of accumulation strategies to be followed.

The hegemonic project is oriented to non-economic objectives (military success, social reform, political stability or moral regeneration) although these issues could be economically conditioned. The realisation of a hegemonic project depends on three key factors: its structural determination, its strategic orientation, and its relation to accumulation. The first one means that there is a structurally privileged class which maintains its situation in each accumulation strategy and hegemonic project. The structural determination shows the necessity of studying the forms of representation,

the internal structure of the state, and forms of intervention. The strategic orientation and the relation to political practices points towards the study of the social bases of state power. The relation to accumulation also signifies the relation with the prevailing accumulation strategy.

Jessop concludes that "there is no essential unity of substance to the value form of the circuit of capital and that the unity that exists depends on the successful accumulation strategy oriented to all complex economic, political, and ideological conditions necessary to accumulation in a specific conjuncture" (Jessop, 1991, p. 181). He recognises a dynamic relation between the accumulation strategy and the hegemonic project. He takes account of both changes in the state and actions regarding the economic, political, social and ideological aspects of state policy. He also emphasises the historical aspect of the state because he regards the current accumulation strategy as the result of preceding strategies.

Each accumulation strategy needs a hegemonic project for its realisation. I see a hegemonic project as the ideology which supports the application of an accumulation strategy. In order to effect a radical change in accumulation strategy the hegemonic project has to be changed beforehand. But a radical change in the hegemonic project could be applied without a prior change in the accumulation strategy.

A weak point in Jessop's arguments is the analysis of the state as a unified actor after the choice of hegemonic project, ignoring the role of class struggle. Also, the contradiction mentioned above -namely, that structures seems to constrain accumulation strategies despite Jessop's argument that there is a plurality of accumulation strategies to be followed- is not resolved. Finally, Jessop's claim that many possible accumulation strategies can be pursued is also misplaced. For Jessop, the determination of which accumulation strategy will be adopted by the state requires an analysis of the political conflicts through which strategic issues are resolved (Bonefeld, 1992, p. 4). This statement is based on an understanding of the state as above class struggle. "The



development of capitalism is thus construed in terms of an articulation between different social systems which stand above social conflicts" (Bonefeld, 1992, p. 4). Thus, Jessop understands conflict as based on the relative autonomy of the economy, polity and ideology. For Jessop the state appears isolated from class struggle.

In addition to this weakness, Jessop does not recognise that in the context of the globalisation of capital the choice of accumulation strategy is severely constrained. This weakness might originate in Jessop's decision to ignore the international state system. Indeed, he barely mentions the role of international constraints. Jessop fails to put the capitalist state within its international context, ignoring the impact of the globalisation of capital on the development of the capitalist state. In this sense, Jessop's work is unsatisfactory as a framework for an empirical study of a national state. Peter Hall's analysis, similar in many ways to Jessop's, is an step further in this direction since he incorporates the study of the international system.

Peter Hall (1986, p. 4) argues that the economic policy making process is highly political. For him the major challenge is to discover the political factors which most influence the process. His task is to highlight that the direction of policy in Britain and France was determined, "not simply by prevailing economic conditions, but also by a political dynamic" (Hall, 1986, p. 20). He suggests that the aim of his study is to look at the political determinants of economic policy "that links those policies to the structural constraints implicit in the socioeconomic organisation of each nation" (Hall, 1986, p. 231). Hall states that national economic policy is influenced by what a government is *pressed* to do and by what it *can* do in the economic sphere (1986, p. 232). According to him, governments are prevented from adopting a policy by the absence of any means to implement it (Hall, 1986, p. 232).

Hall's institutional approach suggests that economic policy making is affected by five factors. The first three "are intrinsic to the socioeconomic structure of a nation" (1986, p. 232). They are: the organisation of labour which refers to the organisation of



the working class in the labour market; the organisation of capital which refers to the organisational relationship between financial and industrial capital; and the organisation of the state apparatus which means the roles of, and relationships between, the Executive, Legislative and Judicial bodies. In addition, the position of the nation within the international economy may also influence economic policy. This refers to the relative openness of national markets and the position of national producers in the international markets. Finally, the organisation of the political system itself, which refers to the electoral practices and network of organised political parties, seems also to affect economic policy making.

Explaining the reasons why organisation is important, Hall (1986, p. 232) first argues that policy is the response to pressure from various groups. However, the way this pressure is organised depends on the organisation of the structure within which it is expressed. Secondly, the interests of the actors are affected by the organisation of the economic and political structures within which they operate. Thirdly, Hall states that economic policy making is a collective endeavor (1986, p. 233). And finally, "in order to implement economic policy, the state relies on access to organisational resources in both the public and the private sectors" (Hall, 1986, p. 233).

Hall concludes his work by arguing that "the institutions that affect the performance of the economy and distribute power in society are ultimately artefacts of political action. They were constructed out of political struggles, and from time to time, we may recast them" (1986, p. 283). I suggest that Hall's institutional approach is a useful framework to study the relation between the state and economic policy since it takes into account both the international and domestic factors which influence the economic policy making process. However, it has to be highlighted that Hall's work is not an attempt to develop a general state theory. Hall takes for granted the capitalist nature of the state. Nevertheless, his approach is a useful framework to discover the development of the relation between state and economic policy. His weakness is that he



still gives little attention to the international context, even though it is one of his five actors.

Krasner and Hall (and to a lesser extent Jessop) incorporate aspects of the international system which is crucial for this study. However, they refer only very tentatively to the influence of the international system in the development of the state. For the purpose of this study, it is necessary to analyse in greater depth how the internationalisation of capital, highlighted by Mandel (1978), modifies the relation between national states and economic policy. Hence I will now turn to analyse Mandel's (1978) contribution in understanding the internationalisation of capital.

## **II. The internationalisation of capital**

The aforementioned approaches, despite their differences, share a significant weakness. The capitalist state should be studied in the context of the internationalisation of capital. Mandel's (1978) seminal study was an attempt to relate the development of the national state to the global accumulation system. Mandel following Marx relates the international concentration of capital to a process of international centralisation (1978, p. 316). He makes strict distinctions between the internationalisation of the realisation of surplus-value (the sale of commodities), the internationalisation of the production of surplus-value (the production of commodities), the internationalisation of the purchase of the commodity of labour-power (or the specific market for this commodity), and the internationalisation of the power of command over capital, which is "ultimately always based in the internationalisation of capital ownership" (Mandel, 1978, p. 323).

The internationalisation of the production of commodities began after the Second World War, being a new late capitalist development, consisting of an international framework for the competition of capital. The internationalisation of the purchase of

labour was unevenly developed, and the internationalisation of the power of command over capital was only developed in communications. Mandel, then, analyses three types of state strategy to be connected to the aforementioned developments. First, the international centralisation of capital could be followed by the international extension of the power of one state (Mandel, 1978, p. 326). Secondly, the international centralisation of capital may be followed by the gradual dismantling of the power of various nation states with the rise of a federal supranational state power. Thirdly, it could be followed by the relative indifference of internationalised capital to the late capitalist state (Mandel, 1978, p. 328). He suggests that these three different relationships between the international centralisation of capital and the state provide three possible models of imperialism for the near future. First, the model of super-imperialism which is based on a single imperialist power. Second, the model of ultra-imperialism in which the international fusion of capital is so advanced that "all critical differences of economic interest between the capital owners of the different nationalities disappear" (Mandel, 1978, p. 332). And third, the model of continuing inter-imperialist competition where "capital fusion is achieved on a continental level, but thereby intercontinental imperialist competition is all more intensified" (Mandel, 1978, p. 333). Mandel argues that "the main tendency of the intensifying international competitive struggle today is not for big capital to merge on a world scale, but for several imperialist formations to harden in their mutual antagonism" (1978, p. 338). He concludes that the international centralisation of capital must be understood as capital's attempt to break the barriers of the nation-state (Mandel, 1978, p. 342).

Mandel's main contribution was to place the capitalist state in the context of the internationalisation of capital. He tries to explain, from a Marxist perspective, the causes of the post-war rapid growth in the international capitalist economy, emphasising the process of the international centralisation of capital as one of the main causes. His perspective highlights the inadequacies of the aforementioned approaches since all of them concentrate their attention on the capitalist state as if it were isolated



and indifferent to the modifications of its own international context. However, Mandel's analyses are riddled with inflexibility since his arguments follow a crude continuity of stages. Mandel's predictions concerning the development of the capitalist state make his arguments much too mechanical. Despite this, Mandel provides the basis for understanding the significance of the internationalisation of capital.

This thesis, studying the Argentinian state's economic policy in the democratisation process of the 1980s, cannot ignore the internationalisation of capital and its main consequences for the capitalist state since the external debt, an essential feature of the period, is a consequence of this globalisation. Therefore, as most of the aforementioned approaches do not fully examine the internationalisation of capital and the international state system, I turn now to studies which look at this relationship and its impact for state theory.

### **III. Global Capital and the National State**

#### *i. Dependency Theory*

Dependency theory was one of the first contributions to take into account the international framework of the capitalist state. There are two main currents: the world system view and the historical-structuralist perspective. The world system view, represented by Günder Frank, Samir Amin and Immanuel Wallerstein, suggests that the underdevelopment of Third World capitalism is a consequence of the main internal contradictions that characterise its modes of production as part of the development of world production (Carnoy, 1984, p. 184). For Frank "this dependent, and in this sense weak, character of the state in the Third World -dependent financially, technologically, institutionally, ideologically, militarily, in a word politically, on the international bourgeoisie(s) and their metropolitan states- may be regarded as the fundamental

characteristic of the Third World state" (1979, p. 5). In the world system perspective, the dependent state is organised to meet the needs of a powerful international bourgeoisie. As Picciotto points out (1991a, p. 218) in Wallerstein's approach, the world market and the consequent international division of labour allocate a particular role to each region. However, he argues with Brenner (Picciotto, 1991a, p. 218) that it was not trade "that transformed production relations, but the contradictions of feudal and post-feudal production relations that led to transformations both of the world market and of the form of the state". In this sense, Wallerstein's approach is misplaced due to its emphasis on the world market as the 'allocator' of roles. This approach is also quite mechanical and functionalist, and so quite inflexible regarding the role of each region (Skocpol, 1977, p. 1088).

The historical-structural perspective "emphasises not just the structural conditioning of social life, but also the historical transformation of structures by conflict, social movements, and class struggle" (Cardoso and Faletto, 1979, p. X). The main contribution of this perspective is its concentration on the inter- and intra-class struggles that mark the development of capitalism into the periphery. The social struggles which took place in the periphery were important for the development of capitalism in the Third World and for the development of world capitalism. The state is viewed as the instrument of imperialist penetration, on the condition that the exporting bourgeoisie "can organise hegemonic blocs that overcome resistance to deepening dependency" (Carnoy, 1984, p. 195). The dependent state is placed in the context of conditioned class struggle -conditioned by crises and developments in the world system and by the role of export sectors in the national economy.

A type of dependent state was widely analysed by O'Donnell. It has been defined by O'Donnell (1988) as the Bureaucratic Authoritarian state (BA). The BA is a type of capitalist state which has to guarantee capitalist relations of production and the maintenance of the social relations which allow the dominance of the bourgeoisie as a class. The BA state is a



"defensive reaction by the dominant classes and their allies to crises involving a popular sector<sup>6</sup> that has been politically activated and is increasingly autonomous with respect to the dominant classes and the state apparatus. This reaction includes an agreement among those who implant and support the BA that its main tasks should be the subordination and strict control of the popular sector, a sharp reversal of the tendency toward autonomy of its class organisation, and the elimination of its capacity to express itself in the political arena" (O'Donnell, 1988, p. 31).

The principal social base of the BA is the upper bourgeoisie<sup>7</sup>, in a class structure defined by O'Donnell (1988, p. 31) as subordinated to the upper fractions of a highly oligopolised and transnationalised bourgeoisie. O'Donnell (1988, p. 191) points out that "the BA is a state for the bourgeoisie: it supports and defends the most basic and long-term interests of this class, but it is not an apparatus colonised by the immediate interests of its various fractions". The main objective of the BA is the political deactivation of the popular sector, the reimposition of 'order', and the stabilisation, or 'normalisation' in O'Donnell's words, of the economy. The BA state is a system which perpetuates the political and economic exclusion of the popular sector.

O'Donnell's analyses have been extremely useful in studying the Latin American authoritarian regimes. Regarding Argentina, the BA can be applied to the military dictatorships of 1966 and 1976. Indeed, O'Donnell uses the BA to study the 1966 military government. I believe that the BA framework is a useful approach to characterise the Latin American authoritarian regimes and to highlight their main features and objectives. In this thesis, analysing the 1966 military dictatorship, I suggest that O'Donnell's framework helps to understand the origins and development of the dictatorship. O'Donnell's historical analyses further clarify the causes and consequences of the authoritarian governments.

However, the concept of the BA has been widely criticised. Stepan (1978) argues that the BA is not a type of state but a type of corporatism, while Cardoso (1979) points out that the dependent state has coexisted with many different political regimes<sup>8</sup>. O'Donnell's analysis must be seen as an attempt to understand capitalist development in the periphery through considering the causes and consequences of the rise of Latin American authoritarian states. I suggest that O'Donnell's analyses are an attempt to build up a framework to study the development of the capitalist state in Latin America. In the framework of dependency theory the BA is a type of capitalist state which influences the development of the dependent state.

Dependency theory has also been widely criticised for its simplistic perspective<sup>9</sup>. Holloway (1994, p. 52) correctly states that dependency theory remains very state-oriented and over-emphasises the external constraints on state action. This critique shows the inability of dependency theory to understand the relation between the capitalist state and domestic economic policy in the current context of the internationalisation of capital. Thus, dependency theory in general is not suitable for this study since I intend to analyse how Alfonsín attempted to restructure the state and the working class and the Argentinian state's relationship to the global economy. This thesis intends to look at both levels, global capital and national state policies, to analyse the development of the Argentinian capitalist state in the 1980s. In this regard, dependency theory is an incomplete approach, however useful O'Donnell's insights on bureaucratic authoritarianism as one form taken by the capitalist state.

## *ii. Contemporary Marxist attempts to analyse the internationalisation of capital and the national state*

From the late 1970s a new phase in the state debate began. A seminal contribution was that of Holloway and Picciotto (1977, p. 76) who pointed out that



"from the 1930s to the 1960s the analysis of the processes of capitalist accumulation became separated from that of class struggle and the state". This promoted the idea of the state as 'the state in capitalist society' rather than one aspect of the social relations of capital. At the same time, due to "the failure to relate developing contradictions of accumulation to the changing forms of class struggle within and around the state" (Holloway and Picciotto, 1977, p. 76), it has been difficult to develop a sophisticated approach to crisis. Holloway and Picciotto's argument is that

"a theoretical and practical understanding of the present crisis and of the role played by the state can be gained only by seeing the crisis not as an 'economic crisis' but as a crisis of the capital relation, i. e. as a crisis of an historically specific form of class domination, a crisis of accumulation which involves the totality of capitalist social relations and therefore a struggle waged on every front and through every mechanism, economic, political, ideological, etc." (Holloway and Picciotto, 1977, p. 77).

Thus, the development of the state must be seen as a particular manifestation of the crisis of the capital relation. The capitalist state is usefully conceptualised as a particular surface form of the capital relation, "i.e. of an historically specific form of class domination" (Holloway and Picciotto, 1977, p. 77). They argue that the state must be located in the context of the historical form taken by the relation between dominant and dominated classes in capitalist society. Thus, the beginnings of a theory of the state must lie in the "historical materialist category of the capital relation" (Holloway and Picciotto, 1977, p. 78). The succeeding dominant forms of surplus value production should be the basis for understanding the development of the capitalist state (1977, p. 86).

Holloway subsequently distinguishes between state form and state apparatus (1991a, p. 228). This distinction gives rise to a 'double dimension' of the state as a relation of capitalist domination, and as an apparatus. Regarding the state as a relation of capitalist domination, Holloway points out that the analysis of the state as a form of the



capital relation is an attempt to analyse the place of the state in the relations between capital and labour, "conceived of as an historically specific form of class domination with its own laws of motion" (Holloway, 1991a, p. 232). The capitalist state is "constituted by the particularisation of the political and the economic as distinct forms of social relations" (Holloway, 1991a, p. 240). In the transition from feudalism, the serf becomes wage-earner and citizen. The separation of 'economics' and 'politics' implies the separation of economic and political relations, that is the constitution of the proletarian as property-owner and citizen. This separation is a constantly-repeated process: "the classless status of citizen comes into constant conflict with the class experience of the bearer of that status" (Holloway, 1991a, p. 240). Therefore, the constitution of the state is a process of fetishisation "of the fragmentation of class relation into non-class form" (Holloway, 1991a, p. 249).

This analysis of the capitalist state is a useful attempt to explain the main historical features of its development, and to provide a basis to go further in analysing the national form of the capitalist state. From this level of abstraction, analysis should move to the study of the national state. However, Holloway and Picciotto do not pay enough attention to the national form of the capitalist state (Clarke, 1991b, p. 54), and to the international state system. Despite this weakness, Holloway and Picciotto's analysis of the capitalist state is a significant attempt to theorise the relation between capital and the state as the "*contradictory unity* of differentiated forms of capitalist power" <sup>10</sup>(Clarke, 1991b, p. 56).

Due to the aforementioned weakness, Barker (1991, p. 204) criticises Holloway and Picciotto's article since they treat the state as if it existed only in the singular. He emphasises that capitalism is a world system of states, "and the form that the capitalist state takes is the nation-state form" (1991, p. 204). Barker's article is an attempt to place the capitalist state in an international context by arguing that capitalist society should be seen as a global 'social formation', a real totality, rather than a set of separate capitalist societies (1991, p. 210). Von Braunmühl's (1978) article is also an attempt



in this direction. The contradiction between internationalisation and nationalisation of the process of accumulation is defined by von Braunmühl as the main feature of the imperialist system (1978, p. 260). She correctly argues that an international system consists of many nation states (1978, p. 162). Thus, the world market is organised in the form of many national economies as its integral components (1978, p. 162). The world market is defined as "an international, state-organised and specifically structured, all-encompassing effective international context of competition, within which statehood arises and consolidates itself and states form their characteristic economic, social, and political structure" (1978, p. 167). Thus, the world market must be understood as a totality constituted by many national economies. Von Braunmühl's weakness is her over-emphasis on the world market, and her consequent neglect of the historical context of the national state.

Another significant attempt to incorporate the internationalisation of capital into Marxist state debate was made by Radice (1984), arguing that since the capitalist world economy has become so integrated, it is impossible to maintain a national capitalist strategy. He firmly assesses that there are no longer significant nationally-limited capitals (1984, p. 127).

Indeed, in the seventies, the power of multinational companies seemed to undermine the political power of national states and their capacities to develop 'national economic strategies'. However, this notion is based on a specific concept of the capitalist state and its relation to the economy. This concept either idealises the role of nation states or reduces them to "mere spatial zones, or territorial areas, housing the economy" (de Brunhoff, 1976, p. 138). As de Brunhoff (1976, p. 139) argues the point is not to analyse the relationship between multinational companies and the integrity of national states, rather it is to define the "new forms of state practices in relation to changes within capitalism". Indeed, the multinational companies "are not economic subjects able to replace national political subjects" (de Brunhoff, 1976, p. 138).

To clarify this 'antagonism' between internationalisation of the economy and the national state, Picciotto (1991b, p. 46) suggests that the internationalisation of state and capital are interrelated processes. He argues that

"the internationalisation of capital has not been a purely economic process: an important role in shaping it was played by the internationalisation of a framework of state structures which have generally guaranteed the internationalised ownership of capital and its reproduction primarily through the corporation. The modern capitalist state was born within an international framework. Although it was primarily national socio-economic forces that defined its socio-geographic boundaries, its form and functions developed internationally" (1991b, p. 47).

In this sense, the international system is defined as a network of "loose and overlapping *jurisdictions*"<sup>11</sup> (Picciotto, 1991b, p. 47). Picciotto emphasises that during the twentieth century there occurred two processes: the consolidation of the national state and the development of international organisations. These internationally organised networks played a crucial role in ensuring "the minimum degree of coordination of state regulation necessary to permit the international reproduction of capital" (Picciotto, 1991b, p. 53). Picciotto highlights the significance of the internationalisation of capital for the development of the capitalist state, concluding that despite the process of internationalisation, the national form remains important since it provides the basis for the international reproduction of capital.

In the context of this problematic, Pooley (1991, p. 67) also emphasises that, despite the internationalisation of capital, "nation-states remain focal points for political activity over a wide range of economic and social circumstances". He points out a basic contradiction of the globalisation process: international capital utilises the capitalist state while trying to avoid its regulatory functions (1991, p. 67).



Following these approaches, Burnham develops Marxist state theory at the level of the interstate system. He (1992a, p. 3) points out that the appropriate level for analysing the state is the world market. This is due to the constitution of the national state: vertically with regard to its population, government and sovereign territory; and laterally, regarding its relations with other states as 'equals'. Burnham (1992b, p. 4; and 1994) states that the most important contradiction of capitalism is still undertheorised, that is the tension "between the national form of the capitalist state and the global character of accumulation". Currently, national states struggle to mediate the consequences of this contradiction. Burnham explains the different analytical levels to be followed to analyse this contradiction, concluding that to analyse the contemporary international system it is fundamental to go from the level of abstraction of the capitalist state form to particular national states (1992b, p. 12). His arguments lead him to conclude that global crisis is experienced by capitalist states in a national form. This was notably the case of the international debt crisis.

Most recently, Holloway (1994) states that national state development can be understood only in relation to the development of global capital. The unity between states is that "all are rigidified, apparently autonomous forms of social relations" (Holloway, 1994, p. 27). This fetishised form exists as a multiplicity of national states. Due to the multiplicity there are differences in the relation between global capital and national states. Each state has a different relation to the global relations of capitalism (Holloway, 1994, p. 33). Therefore, there is competition between national states, defined by Holloway as extremely unequal, to attract and maintain into their territories a share of global surplus value (1994, p. 35). Holloway argues that this process is not an internationalisation or globalisation of the economy, rather it is a change in the form of the global existence of capital (1994, p. 41). This leads him to argue that political decisions taken by the national state are integrated into the global movement of capital (Holloway, 1994, p. 42).

In this context the capitalist form of the national state can no longer be studied in isolation. Assuming the relevance of global capital, the inadequacy of pluralism, statism and other leading contemporary approaches in defining the development of the capitalist state and its relation with economic policy becomes clear. Global capital has radically transformed this relationship. The contemporary capitalist state, although still assuming the national form, has to be analysed in the context of global capital, above all when the study is focused on economic policy.

### *iii. The notion of crisis and the 'monetarist' restructuring of the state*

As indicated above, this thesis is predicated upon the assumption that crisis is neither 'economic' nor 'political'. The concepts of 'economic' and 'political' are specific to capitalism since "the relations between slave and master or serf and lord were indistinguishably economic-and-political relations" (Holloway, 1992, p. 160; and Anderson, 1979). Thus, the concepts of 'economic' and 'political' are fetishised categories which reflect the superficial fragmentation of capitalist society.

The notion of crisis, applied to social and historical developments, refers to 'hard times' as well as to turning points (Holloway, 1992, p. 146). Although crisis presents itself as economic, it expresses the structural instability of capitalist social relations, "the instability of the basic relation between capital and labour on which the society is based" (Holloway, 1992, p. 159).

As Holloway and Picciotto (1977, p. 77) suggest, the development of the state must be seen as a particular manifestation of the crisis of the capital relation. Crisis of the capital relation inevitably involves a restructuring of social relations which takes economic and political forms (Holloway and Picciotto, 1977, p. 92). Crisis involves a process of struggle. The restoration of accumulation and a new pattern of accumulation depends on the outcome of the process of struggle. Thus, crisis is a crisis of the capital



relation. A crisis of an historically specific form of class domination; a crisis of accumulation which involves the totality of capitalist social relations.

Moreover, crisis is composed of both breakdown and restructuring, and "between crisis-as-rupture and crisis-as restructuring there is a whole world-history of struggle" (Holloway, 1992, p. 164). Indeed, this thesis demonstrates that the crisis of the Argentinian state, that is the breakdown in the established pattern of social relations, could not be resolved by the 1976 military dictatorship. Thus, crisis-as-rupture and crisis-as-restructuring were not identical. Moreover, the 1983-1989 democratic government was also unable to restructure the state and social relations. Thus, rupture may or may not contain the possibility of a restructuring.

As noted earlier, the state appears as the primary barrier for the resolution of the crisis and the realisation of the particular interests of both capitalists and the working class. However, as Clarke (1990, p. 27) suggests, and as this thesis demonstrates, the ultimate barrier is the strength of the working class. In addition to this, in the context of global capital, the restructuring of the state takes into account the relationship between the national state and the global economy.

During the seventies, Keynesian policies were abandoned and replaced by 'monetarism'. While the former emphasises full employment, the latter emphasises price stability. Economically, 'monetarism's' common theme is "the need to maintain monetary stability to ensure the smooth operation of the market and the achievement of a full employment equilibrium" (Clarke, 1988, p. 323). In general terms, 'monetarism' prioritised monetary regulation as a means to achieve price stability. The economic role of the state is "to confine accumulation within the limits of the market by restructuring the growth of the money supply" (Clarke, 1988, p. 328). This economic aspect was complemented by the eradication of the institutional forms of Keynesianism and the restructuring of the state as the means of imposing the rule of money and law. Thus, the political institutions of Keynesian class collaboration were destroyed. 'Monetarism'

attempted to exploit and intensify the divisions within the working class for the reimposition of the rule of money (Clarke, 1988, p. 355). Money replaces the state as the agent of restructuring, the rule of money is imposed on capitals and on the state by the banks and the financial institutions. The 'monetarist' restructuring of the state and its class relations is an attempt to "resolve the political crisis of the state by trying to disengage the state politically from the economy so as to depoliticise economic policy formation" (Clarke, 1990, p. 27).

As Clarke (1988, p. 355) suggests the internationalisation of capital had undermined the possibility of social democratic governments pursuing alternative economic strategies to 'monetarism'. This thesis demonstrates that the 1983 democratic government did not initially intend to resolve the crisis of the Argentinian state by the imposition of a 'monetarist' restructuring. However, as its Keynesian policies failed, the government was unable to avoid a gradual 'monetarist' restructuring of the state and its class relation.

#### **IV. Conclusion**

One of the purposes of this chapter has been to analyse the relation between the state and economic policy in the current context of global capital. In this sense, pluralism, the Miliband/Poulantzas debate, statism, Jessop and Hall's analyses do not provide a satisfactory framework.

As noted earlier, pluralism is more concerned with the analysis of liberal democratic governments than with the state. Miliband's analysis is focused on the class character of advanced capitalist societies. Poulantzas' work remains too abstract to provide a useful framework for this thesis. Statism deals with specific state policies in a given moment, the concept of 'state autonomy' reflecting its failure to recognise class



struggle. Jessop's analysis is influenced by his separation between 'economics' and 'politics' -in Jessop's words, accumulation strategy and hegemonic project. This thesis denies such a separation. Jessop also ignores class struggle, isolating the state from society. Finally, Hall's work, although a useful framework to study the relation between the state and economic policy, does not provide a satisfactory framework since he does not conceptualise the capitalist state.

In addition to these weaknesses, these approaches do not theorise the relationship between the state and economic policy in the current context of global capital.

Dependency theory, which does analyse the international context of the capitalist state, emphasises the external constraint as an structural obstacle for the development of the 'dependent state'. Thus, it cannot be used as a theoretical framework of this thesis since the main objective here is to analyse the restructuring of the Argentinian state, its class relations, and its relation to global economy.

Finally the contemporary Marxist accounts attempt to provide a satisfactory framework, although they need to be enriched by empirical studies to be able to conceptualise the capitalist state, its relation to economic policy and to the global economy.

Thus, the theoretical framework of this thesis rests upon a view of the capitalist state as an historically specific form of class domination. The analysis of the development of the capitalist state must be located in its historical context. The development of the state must be seen as a particular form of manifestation of the crisis of the capital relation, thus class struggle cannot be ignored. Class struggle influences the historical form of the state. In this sense, the economic policy of the capitalist state is primarily an outcome of both domestic and international class struggle. An analysis such as this overcomes the superficial separation between 'economics' and 'politics'. This fetishised separation is caused by the constitution of the proletarian as property-owner and citizen, a specific feature of the capitalist society. The coexistence of the classless

status of citizen and the class character of capitalist society is the origin of the separation between 'politics' and 'economics'. The historical analysis of the capitalist state helps to overcome this superficial separation, and conceptualises the capitalist state as a historically specific form of class domination.

To locate the analysis of the state in its historical context also enables us to conceptualise its relation with economic policy. And, as noted earlier, the globalisation of capital is a feature which modifies this relation. National state development must be understood in relation to the development of global capital. The capitalist state can no longer be studied in isolation.

The analysis of the capitalist state and its historical development provides a basis to go further in analysing the national form of the capitalist state. However it must be enriched by empirical studies which help to conceptualise the relation between the capitalist state and global economy. In this way we are able to analyse how global crisis is experienced by capitalist states in a national form. This thesis is an attempt to enrich the theory with empirical study. It intends to analyse the resolution of the crisis of the Argentinian state by the 1976 military dictatorship and the 1983 democratic government. It is mainly focused on the attempt of the democratic government to resolve the crisis of the Argentinian state in the context of the debt crisis.

Although crisis is often experienced in an economic form, it inevitably involves a restructuring of social relations. Crisis is not the transition from one phase of accumulation to another, rather it expresses the instability of the labour-capital relation which is the basis of capitalist society.

Thus, this thesis is guided by the assumption that the crisis of the capitalist state means a breakdown and a restructuring of the capital relation. In the context of globalisation of capital, the restructuring of the capital relation means a restructuring of the state, the working class, and the state's relationship to the global economy. With the 'triumph of monetarism' over Keynesian policies this restructuring means,



ideologically and politically, the imposition of the rule of money and the law. These theoretical assumptions provide a framework from which the attempt of restructuring the Argentinian state by the 1976 military dictatorship and the 1983 democratic government can be analysed avoiding the fetishised separation between 'economics' and 'politics'.

According to the significance given to the historical context, it is now necessary to present the development of the crisis of the Argentinian state from the 1950s to the early 1970s in order to explain the causes of the 1976 military dictatorship.

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<sup>1</sup> Although there are a number of pluralist schools they all tend to share common assumptions. Thus the analysis, I will present, is focused on these common assumptions. See, for instance, Dahl (1956), (1958), (1961), and (1978), and Bachrach and Baratz (1962) and (1970).

<sup>2</sup> Italics in text

<sup>3</sup> Italics in text

<sup>4</sup> For a good critique of this debate see Clarke (1991b), and Holloway and Picciotto (1977).

<sup>5</sup> Italics in text

<sup>6</sup> O'Donnell (1988, p. 23) defines 'popular sector' as the ensemble formed by the working class and the unionised segments of the middle sectors.

<sup>7</sup> The *upper bourgeoisie* is composed of the larger and more powerful (monopolistic or oligopolistic) fractions of urban private capital, both national and transnational (O'Donnell, 1988, p. 33).

<sup>8</sup> For other critiques see Collier (1979).

<sup>9</sup> For more details on dependency theory see Cardoso and Faletto (1979), Frank (1978), Palma (1978), Caporaso (1978), Sunkel (1972) and Carnoy (1984).

<sup>10</sup> Italics in text.

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<sup>11</sup> Italics in text.



## Chapter 2

### A brief historical background of the crisis of the Argentinian state

#### Introduction

The objective of this chapter is to set the scene for the analysis of the 1976 military dictatorship, explaining the historical origins of the crisis of the Argentinian state. The chapter is divided into three sections. The first deals with the recent political background explaining the causes and consequences of the crisis of the Argentinian state. It analyses the emergence of Peronism, *sindicalismo peronista*, and examines the political role of the Armed Forces. It highlights the reasons why, historically, in Argentinian politics, the Armed Forces and the trades union movement played an influential role. The second section explains Argentina's recent economic development, preparing the ground for the study of the 1976 economic structural reform. The last section concludes by analysing the development of the crisis of the Argentinian state and outlining its main features in 1976.

#### I. The Political Background

##### *i. The emergence of Peronism and 'sindicalismo peronista'*

In 1930 the first military coup ended fourteen years of democracy in Argentina. The 1916 Radical government signalled the incorporation of the middle sectors of Argentinian society into the political sphere<sup>1</sup>. The coup was the first manifestation of the crisis of the Argentinian state since it once again excluded the

middle sectors from political involvement. The re-incorporation of both the middle sectors and the working class had to await the arrival of Peronism.

In 1943, after many conservative governments which were the result of electoral frauds<sup>2</sup>, a nationalist sector of the Armed Forces took over the government. The GOU (*Grupo de Oficiales Unidos* -United Officials Group), a secret military society, organised the coup. The main aim of the coup was to overthrow President Ramón Castillo and the presidential candidate Robustiano Patrón Costas who would have been elected by another electoral fraud (Potash, 1969). The objective of the coup was, thus, to end the 'electoral fraud era' (*década infame*), and to begin a return to democracy. One of the main participants of the 1943 military coup was Colonel Juan Domingo Perón. By 1944 Perón was, simultaneously, Vice-President, Minister of War and Secretary of Labour (Potash, 1969, p. 248).

Perón, from his position as Secretary of Labour, encouraged the unionisation of the working class. The labour movement which existed at the time of the 1943 military coup was divided and weak. There existed four labour organisations: the anarchist *Federación Obrera Regional Argentina* (Argentinian Regional Workers' Federation), the syndicalist *Unión Sindical Argentina* (Argentinian Syndical Union), and the *Confederación General del Trabajo* -CGT- (General Confederation of Labour) *nº 1*, controlled by socialists, and *CGT nº 2*, controlled by communists. In 1943 only 20 per cent of the urban labour force was organised, the majority of them from the tertiary sector. The great majority of the industrial labour force was, thus, outside effective union organisation (James, 1988, p. 9). Construction, food processing and wood working had been organised by the Communist Party, while textiles and metal working, which had been the vital areas of industrial expansion in the 1930s and the 1940s, were not unionised. "Of 447.212 union members in 1941 the transport sector and services accounted for well over 50 per cent of membership, while industry had 144.922 affiliates" (James, 1988, p. 9). In this context of weak unionism, there were wide wage differentials, seasonal



unemployment, and general low pay. Perón encouraged unionisation. He released union leaders from prison, opened government posts to union men, provided many short-run benefits to the workers and added a large welfare dimension to the activities of the state (Corradi, 1985, p. 58). He established a forty-hour week, the minimum wage, medical insurance, rights for dismissed employees, and annual paid holidays (Lewis, 1992, p. 140). He also integrated the trade unions into a single massive national confederation. In November 1944, Perón dissolved the communist CGT nº 2 and ordered all trade unions to join the CGT nº 1 (Lewis, 1992, p. 141). Perón also enacted the Law of Professional Associations which established that:

"No union could claim legal status unless first granted recognition by the Secretariat of Labour. Without such recognition, it could not sign a legally binding contract, represent its members in labour courts, or own property. Only one union was allowed in each economic field. In theory, the government was supposed to recognise the largest unions as the most representative" (Lewis, 1992, p. 141).

Perón was also concerned with rural labour. He promulgated the *Estatuto del Peón* (Statute of the Rural Worker) which regulated minimum wages for rural workers. The Statute required farmers to provide decent housing, medical services, warm clothing, and wholesome food for the rural workers (Lewis, 1992, p. 142).

Through these measures Perón integrated the working class into the political and economic scenario and recognised its civic and political rights within society. A plot within the Armed Forces against Perón resulted in his arrest on the 13th October 1945<sup>3</sup>. There are few events in Argentinian history that can be compared with the 17th October 1945. Even now it is unclear who was behind the organisation (Luna, 1982) but from very early in the morning, thousands of workers came to Buenos Aires to demand Perón's release. Felix Luna captures the atmosphere of the 17th of October:

"Well, there they were. As if they wanted to show all their power, so that nobody could doubt that they really existed. There they were all over the city, shouting in groups which seemed to be the same group multiplied by hundreds. We looked at them from the side walk, with a feeling akin to compassion. Where had they come from? So they really existed? So many of them? So different from us? Had they really come on foot from those suburbs whose names made up a vague unknown geography, a *terra incognita* through which we had never wandered ... During all those days we had made the rounds of the places where they spoke of worries like ours. We had moved through a known map, familiar: the faculty, Recoleta for the burial of Salmún Feijóo, the Plaza San Martín, the Casa Radical. Everything up till then was coherent and logical, everything seemed to support our own beliefs. But that day when the voices began to ring out and the columns of anonymous earth-coloured faces began to pass by we felt something tremble which until that day had seemed unmovable" (Luna, 1982, p. 320).

After the 17th of October 1945 Argentina was never the same, the working class had appeared as a political actor. Because of the social demonstration in the *Plaza de Mayo*, Perón was released. He went to the balcony of the House of Government and made his first speech to the thousands of people waiting for him. This would become a tradition during Peronist governments. After the 17th October 1945 it was not a surprise that Perón won the 1946 and 1952 general elections. A military coup in 1955 overthrew Perón's government and obliged him to flee from Argentina. His return was prohibited for eighteen years.

Peronism was characterised by the incorporation of the workers into the political scenario and their organisation as a labour force. Perón extended political



and social rights to the workers. Perón and his wife, Eva, were seen as the protectors of the workers.

One of Perón's main objectives was to create a *comunidad organizada* (organised community), and to organise the working class (Smith, 1980, p. 81). He argued that unorganised workers "present a dangerous panorama because the most dangerous mass ... is an inorganic one. Modern experience shows that the best organised working masses ... are those which can best be directed and led in all spheres" (Smith, 1980, p. 81). Perón emphasised the role of the unions as the representatives of the working class. The trade unions were incorporated into a Peronist movement and "were called upon to act as the state's agent *vis-à-vis* the working class, organising political support and serving as conduits of government policy among the workers" (James, 1988, p. 11). Between 1946 and 1951 total union membership increased from 520.000 members to 2.334.000 (James, 1988, p. 9). In addition to the organisation of the trade unions, real wages for industrial workers increased by 53 per cent between 1946 and 1949, and the share of wages on the national income increased from 40.1 per cent to 49 percent in the same period (James, 1988, p. 11).

The Peronist years saw the emergence of *sindicalismo peronista*<sup>4</sup> (Peronist trades union movement). As indicated, Perón, from the Secretary of Labour, promoted the unionisation of the workers. In July 1943, the government established that labour organisations could not be involved in politics or spread ideas 'contrary to Argentinian nationality' (Lewis, 1992, p. 141). This gave Perón the power to intervene directly in union affairs. He removed and arrested trade unionists who opposed him and replaced them with his followers. He was able to do so due to the weakness of the trades union movement. Thus, by 1945, the leaders of the textile workers, meat packers, railway, metallurgical, bank, telephone, printing, sugar, and construction workers were loyal to Perón (Lewis, 1992, p. 141). This was the origin of *sindicalismo peronista*; after the Peronist era most trade unionists were

still loyal to Perón. Indeed, the *peronización* of the trades union movement had significant compensations for workers and trade unionists. Perón gave them a voice in Argentinian politics. Perón greatly improved the political, social, and economic situation of the working class.

Although after Perón's fall, the social situation changed, Argentina was never the same. Despite Perón's exit, in reality, the working class could not henceforth be ignored by Argentina's governments. In addition, the Armed Forces, through the 1955 military coup became the representatives of the upper bourgeoisie since it had lost its traditional and broader influence based on the 'electoral fraud system'. Therefore, after Perón's fall, the Argentinian political scenario had dramatically changed, the Armed Forces and the working class its new most influential actors. While the working class remained loyal to Perón, the Armed Forces were deeply anti-Peronist. Thus, from 1955 the Armed Forces tried to *desperonizar* Argentina.

## *ii. The political role of the Armed Forces*

*Desperonizar Argentina* was the main objective of the *Revolución Libertadora* (Liberating Revolution) of 1955, namely, to free the private sector from state controls created under Peronism and to purge all Peronist influences from national politics prior to returning to civilian rule (Smith, 1980, p. 99). President Lt. General Eduardo Lonardi and his successor Lt. General Pedro Aramburu aimed at depoliticising the labour movement by breaking Peronist union bosses' hold on power. Lonardi began the process by removing the Peronist General Secretary of the CGT, Hugo Di Pietro, and replacing him with two younger Peronists who were willing to negotiate with the new regime in order to defend labour's gains (Lewis, 1992, p. 227). Under Lonardi's presidency there was a general strike called by the CGT due to Lonardi's removal of all union officials in order to call for trade unions elections. After the strike, Lonardi restored all union officials (Lewis, 1992, p. 228).



However, Lt. General Pedro Aramburu, who replaced Lonardi, made no attempt to negotiate with the trade unions. Armed raids of Peronist unions increased, and when the CGT responded with a general strike, Aramburu sent in troops to seize its offices (Lewis, 1992, p. 229).

General elections were scheduled for February 1958. Peronism was proscribed and the Radical Party was divided into two factions: the *Unión Cívica Radical Intransigente* which nominated Arturo Frondizi as its presidential candidate, and the *Unión Cívica Radical del Pueblo* with Ricardo Balbín as presidential candidate.

Perón was then in Caracas. Frondizi reached an agreement with him. Perón agreed to instruct his followers to vote for Frondizi who would, if elected, restore the Peronist Party, the Law of Professional Associations to its original form, lift the control over CGT activities, release all Peronist labour leaders from jail, drop all criminal charges against Perón, and re-nationalise the banking system (Lewis, 1992, p. 238). Frondizi was elected President with 45 per cent of the total vote cast, while Ricardo Balbín from the *Unión Cívica Radical del Pueblo* received only 29 per cent (Wynia, 1992, p. 32). Juan D. Perón, from his exile, was still dominating Argentinian politics. However, Frondizi did not fulfill his agreement with Perón, especially in the economic sphere<sup>5</sup>. In addition, Frondizi's strategy to cooperate with organised labour was not very successful mainly due to the decline in real wages and periodic action by the police and military to repress strikes (Smith, 1980, p. 103). Thus, Frondizi could not retain the workers support. Indeed, Frondizi's decision to allow Peronist candidates to run for the March 1962 mid-term elections resulted in an important victory for Peronism which obtained the governorship of Buenos Aires province and 31.5 per cent of the total vote cast (Smith, 1980, p. 103). The result of the elections was not accepted by the Armed Forces which overthrew Frondizi from the Presidency and replaced him with the President of the Supreme Justice Court, José María Guido.

The Guido administration was marked by internal conflicts in the Armed Forces. Two factions emerged: the *colorados* (red ones) which combined "extreme economic orthodoxy and internationalism with near-fanatical anti-Peronism" (Smith, 1980, p. 104). They favoured a doctrine of total vigilance over national politics, the postponement of elections and the complete purge of Peronism from all aspects of national life. The *azules* (blue ones) favoured a quick return to constitutional rule. They were led by Lt. General Juan Carlos Onganía who stood for the "military's 'spirit of self-preservation', defined as the defense of its corporate interests, internal cohesion, and autonomy from the political struggles raging in civil society and in the rest of the state apparatus" (Smith, 1980, p. 104). The dispute between the *azules* and *colorados* led to unprecedented armed conflicts in September 1962 and April 1963 when the *azules* obtained a definitive victory (Smith, 1980, p. 104).

With the *azules'* victory the demand for general elections was realised. For the 1963 general elections, Peronism was proscribed and Frondizi was in prison, thus, the *Unión Cívica Radical del Pueblo* won the general elections with 25 per cent of the total vote cast (Wynia, 1992, p. 32). Blank ballots, mainly cast by Peronists, accounted 17.5 per cent of the total vote cast and Frondizi's Party, 16.2 per cent (Smith, 1980, p. 101).

The elected Radical President, Dr. Arturo Illia, was opposed, from the very beginning of his term, by the CGT. The CGT argued that Illia had been elected by fraudulent and illegitimate means, namely, the proscription of Peronism. Labour opposition was manifested through a prolonged series of general strikes, occupations and demonstrations against the government. During 1963, there were 143 national strikes; in 1964, 265; and in 1965, 291 (Smith, 1980, p. 100). Illia's main goal was the reestablishment of full political rights. Therefore, for the 1965 mid-term elections, Peronism was allowed to present candidates. It won 34.5 per cent of the



total vote cast while Illia's Radical party obtained 28.6 per cent (Smith, 1980, p. 101).

The Armed Forces were sure that the 1967 elections would result in a Peronist victory. In order to prevent the return of Peronism, the Armed Forces, once again, overthrew a 'democratic' government. However, the 1966 military coup was different:

"This would not be merely another repetition of the familiar coups of the intervene-and-exit variety, turning power to the most 'reliable' civilian politicians. The army's internal memoranda reveal that something quite different was being planned. According to the leading theorists of the *doctrina azul* (blue doctrine), since 1955 all the major non-Peronist political parties had been given their chance to create a stable democratic government, overcome the social stalemate, and modernise the economy; all had failed. Consequently the next military intervention had to be a 'revolution' to sweep aside the entire 'corrupt' system of political parties and competitive politics, and not merely a coup to replace an individual president or a particular political party" (Smith, 1980, p. 109).

The Armed Forces did not understand that to create a 'stable democratic government and to overcome the social stalemate' Peronism could not be ignored. The working class was the ultimate barrier to any attempt to govern Argentina. Any solution which excluded the workers and/or their leader, Juan D. Perón, would fail. As indicated earlier, before the emergence of Peronism, the middle sectors and the workers were excluded from Argentinian politics. Peronism meant a restructuring of the state and its social relations. It mainly meant the full inclusion of the workers as a political and social force. The 1955 military coup was an attempt, by the Armed Forces and the upper bourgeoisie, to restructure the state and its social relations by depoliticising and demobilising the workers. Thus, in 1966 the Armed Forces

imposed a new kind of military coup, with different objectives, in order to breakdown the institutionalised power of the working class. However, the latter proved too powerful and the Armed Forces' strategy failed.

As explained in chapter one, the 1966 military dictatorship has been defined by O'Donnell (1988, p. 31) as a Bureaucratic Authoritarian state (BA), that is a "defensive reaction by the dominant classes and their allies to crises involving a popular sector that has been politically activated and is increasingly autonomous with respect to the dominant classes and the state apparatus". The principal social base of the BA is the upper bourgeoisie, in a class structure defined by O'Donnell (1988, p. 31) as subordinated to the upper fractions of a highly oligopolised and transnationalised bourgeoisie. The main objective of the BA is the political deactivation of the popular sector, the reimposition of 'order', and the stabilisation, 'normalisation' in O'Donnell's words, of the economy. The BA state is a system of political and economic exclusion of the working class. In O'Donnell's point of view, the political activation of the popular sector was seen by the bourgeoisie and the Armed Forces as a threat to the capitalist system in Argentina.

From 1966 to 1973, the Armed Forces tried to achieve two main objectives: the imposition of what they understand as political and social 'order' and the stabilisation of the economy. The first President of the 'Argentinian Revolution' (as the new military government was called) Commander in Chief Lt. General Juan Carlos Onganía tried to achieve the second objective appointing as Minister of Economy a man from the upper bourgeoisie, Adalberto Krieger Vasena<sup>6</sup>.

Regarding the trades union movement, the military dictatorship did not have a specific strategy to *desperonizar* it. The government chose to 'divide and conquer' "meeting labour protests head-on and ruthlessly suppressing them, at the same time inviting selected unions to ally themselves with the government as long as they refrained from protesting its policies" (Wynia, 1992, p. 83). As a result of this



strategy the CGT was divided into two bodies: *CGT de los Argentinos* (Argentinians' CGT) and *CGT-Calle Azopardo* (CGT-Azopardo Street); the former was much tougher in negotiating with the military government (O'Donnell, 1988, p.149). The existence of the CGT was becoming a real problem for Onganía and his economic policy due to the increase of trade unions' demands through strikes<sup>7</sup>. But the beginning of the end of Onganía's presidency was signalled by the so-called *Cordobazo*. The antecedents of the *Cordobazo* were confrontations between university students and the police. On May 15th, 1969, during a protest against increases in cafeteria prices in the Corrientes province a student was killed; another student died in a demonstration in Rosario (Wynia, 1992, p. 83). On May 28 and 29, in Córdoba (one of the largest and richest cities in Argentina with one of the oldest Universities), students, workers and other middle sectors "launched a mass uprising. Assailed by rocks, Molotov cocktails, and an inflamed multitude, the police retreated, and the insurrection took over most of the city, focusing its attacks on targets whose symbolic implications escaped nobody: property of the government and of transnational corporations" (O'Donnell, 1988, p. 159). After the *Cordobazo*, the idea of order and the government's authority lacked credibility. Likewise, guerrilla activity soon emerged. On May 29, 1970, former-President, Lt. General Juan C. Aramburu, was kidnapped and later killed by *Montoneros*<sup>8</sup> (the revolutionary-wing of the Peronist Party). This buried completely the idea of order and the authority of the 'Argentinian Revolution'<sup>9</sup>.

All these events indicate that the military dictatorship was unable to control the institutionalised power of the working class and to prevent the emergence of armed urban guerrillas. The seizure of state power by the Armed Forces, as a response to the political crisis, failed to tackle the real barrier to the resolution of the crisis, the institutionalised power of the working class.

After Onganía's resignation, Lt. General Roberto Levingston took over as the second President who intended to 'nationalise' the 1966 military dictatorship. Under



his presidency, the Radical Party, the Peronist Party and some other political parties agreed, in a document called *La Hora del Pueblo* (The Hour of the People) for an urgent return to democracy (O'Donnell, 1988, p. 207). In addition to the emergence of political party activity a second *Cordobazo* marked the end of Levingston's term. Moreover, economic problems and lack of support from the upper bourgeoisie -which had never agreed with Levingston's return to 'economic nationalism'- unleashed a coup by Commander in Chief Lt. General Alejandro Lanusse (Lewis, 1992, p. 286). Lt. General Lanusse tried to organise -particularly by negotiating with Peronism- a return to democracy. In 1973, after seven years the Armed Forces left the government without achieving any of its objectives; order, social peace and economic stabilisation were all absent from Argentina in the early seventies.

As the 1966 military dictatorship was unable to demobilise the working class, it was not a surprise that a Peronist candidate won the 1973 general elections. In March 1973, the Peronist candidate for President, Héctor Cámpora, won the general elections with 50 per cent of the total vote cast. After eighteen years of exile, Juan D. Perón returned to Argentina on June 20, 1973. On July 13, Cámpora and the vice-President, Vicente Solano Lima, resigned and new general elections were held on September 23. Juan D. Perón and his new wife, María Estela Martínez de Perón, won the elections with 62 per cent of the total vote cast (Wynia, 1992, p. 60). Perón's presidency unsuccessfully attempted to reach a social pact between the government, the trade unions and the business organisations<sup>10</sup>. It seemed that, after eighteen years of exile, Perón no longer understood Argentinian politics. In his absence, there had been important changes. A harsh internal struggle had broken out within the trade unions, different factions each claiming to be the successor of Perón's leadership. The left-wing Peronist youth section had obtained an important role under Cámpora's presidency. Now they came into conflict with Perón in an effort



to maintain their influence. Perón could no longer control the internal struggles in either the Peronist Party or the trades union movement<sup>1 1</sup>.

After Perón's death in July 1974, his widow's government had to deal with these continuing power struggles. In addition, José López Rega, the Minister of Social Welfare, had now formed a neo-fascist paramilitary group, the *Alianza Argentina Anti-Comunista -Triple A-* (Argentinian Anti-Communist Alliance) which had the objective of "'ideological cleansing' (*depuración ideológica*) to eliminate *zurdos* (literally left-handed persons) and Marxist 'infiltrators' who had entered the Peronist Movement" (Smith, 1989, p. 228). The struggle of 'the triple A' against the *Montoneros* and the Marxist *Ejército Revolucionario del Pueblo* (People's Revolutionary Army) led Argentina to violence on a scale previously unknown.

O'Donnell (1988, p. 142) defines the pre-1976 situation as "a crisis of social domination with serious challenges to the coercive supremacy of the state apparatus". A crisis of social domination is a crisis of the state as an apparatus, but also, "in its primary aspect as a guarantor and organiser of social domination" (O'Donnell, 1988, p. 26). This type of crisis is defined as the 'supreme political crisis', it is a crisis of the state as a form of social domination (O'Donnell, 1988, p. 26). There was, indeed, a crisis of the state. However, the emergence of this crisis was not in the seventies or the sixties. The emergence of the crisis of the Argentinian state began in the thirties when the Armed Forces, for the first time, overthrew a democratic government. The emergence of Peronism in the forties deepened the crisis and made the restructuring of the state and the social relations more difficult due to the emergence of the institutional power of the working class.

Once again, although just three years before the Armed Forces had failed in their attempt to impose 'order and stabilise' the economy, in March 24, 1976, they took office through a *coup d'etat*. Essentially, the main objective of the 1976 military dictatorship was the imposition of *disciplinamiento social* (social

discipline) (Canitrot, 1981, p. 132) -the attempt to discipline society through subordinating the working class in both the political and the economic sphere. This *disciplinamiento social* was imposed through an economic structural reform and State Terrorism.

In contrast to the failure of the 1966 military dictatorship, the 1976 dictatorship did achieve some of its objectives. The political demobilisation of the working class, albeit on a temporary basis, and the defeat of the armed urban guerrillas was achieved through the implementation of State Terrorism, the establishment of concentration camps, and the 'disappearance' of 30.000 people<sup>12</sup>. Fear was one of the best political allies of the Armed Forces. In addition an economic structural reform achieved the economic subordination of the working class, and transformed Argentina's economic structure to make it impossible for any future government to embark on a 'return to the past' (Smith, 1985, p. 74). Thus, the objective of the military dictatorship was the imposition of a *disciplinamiento social* which was to last longer than the dictatorship itself. Before analysing the 1976 military dictatorship's efforts to achieve this *disciplinamiento social*, let me briefly explain Argentina's economic development from the 1950s to the early 1970s.

## II. The Economic Background

### *i. The Peronist economy*

Peronism did not only change Argentina's social and political scenario but also its economic structure. Helped by the accumulation of reserves during the Second World War, the Peronist government stimulated activity in non-saleable goods and services, the production of marketable goods expanding as a result of the opening up of international trade immediately after the war (Gerchunoff, 1989, p. 63).



One of the main priorities of the Peronist government was a redistribution of income in favour of workers. In manufacturing industry, the real wage per worker increased by 72 per cent between 1950 and 1954; 80 per cent of this increase took place during the first three years of Peronist administration (Gerchunoff, 1989, p. 64). In 1954 a basket of basic food items cost an Argentinian industrial worker 14 hours of labour as compared with 25 hours for an Uruguayan industrial worker, 40.5 hours for a Brazilian, and 74 hours for a Peruvian (Lewis, 1992, p. 208).

The second notable aspect of Peronism was the expansion of the economic role of the state. Total state expenditure jumped 87 per cent between 1939-1944 and 1945-49; by 1955 the increase was only 16 per cent (Smith, 1980, p. 76). State investment increased by 248 per cent between 1946 and 1950 (Smith, 1980, p. 76). These increases were the result of the new presence of the state in public services (railroads, shipping, energy, communication) and in areas that traditionally were developed by foreign capital (foreign trade, insurance, banking), as well as the opening up of new public-sector activities such as airlines (Smith, 1980, p. 76). In addition, the state, through loans from the *Banco de Crédito Industrial* (Industrial Credit Bank), promoted specific industries such as housing construction, regional meat packing plant, agricultural machinery producers, regional electricity cooperatives, frozen-food factories, and the purchase of diesel vehicles (Lewis, 1992, p. 185).

Finally, the third most notable feature of Peronism was the nationalisation of foreign trade. The newly-created *Instituto Argentino de Promoción de Intercambio* (IAP) (Argentinian Institute for the Promotion of Trade) "received international market prices for Argentina's exports in hard currencies and then turned around and paid rural producers in pesos at well below the world market price" (Smith, 1980, p. 77). The generated surplus was to finance industrial investment and urban consumption. This state-managed transfer from the rural sector to urban labour

served to finance industrialisation with income redistribution. However, after 1949, the decline of the terms of trade together with bad droughts in 1951 and 1952 reduced the volume and purchasing power of exports. Thus, the transfer system was, in fact, put into reverse. In order to increase incentives for rural producers, the state began to transfer surplus generated in urban areas to the agricultural sector (Smith, 1980, p. 78).

During this period, there was a double process of industrial fragmentation and centralisation of production. This resulted in a increase in the number of manufacturing firms from 86400 to 151800 between 1946 and 1954 (Smith, 1980, p. 78). The fragmentation occurred in the light industrial sector while the centralisation was in the more dynamic intermediate and heavy industrial sectors (basic metals, vehicles and petrochemicals) "which increased both their proportion of industrial GDP and their share of industrial employment" (Smith, 1980, p. 78). Thus, the industrial bourgeoisie became divided between a large number of small and medium size companies and a small group of firms, organised as corporations, which had considerable capacity to achieve monopoly or oligopoly rents due to their capacity to fix prices. The latter group did not feel protected by Peronism, and thus it formed a temporary alliance with the *Pampeana* bourgeoisie (Smith, 1980, p. 78). The basis of this alliance was, mainly, support for the liberalisation of state controls. This alliance was the social basis of the 1955 military coup.

## *ii. The 1955-1966 economic strategies*

The politically unstable period of 1955-1966 witnessed the increase of foreign capital inflows. In the 1950s foreign investment started to control the most dynamic branches of industry and consolidate the strategy of import substitution industrialisation (ISI) which had started in the 1930s. From 1958 to 1966, US\$630 million in new foreign investments arrived. The share of US capital was



55.2 per cent of the total foreign investment. More than 90 per cent of all US investment went into chemical, petrochemical, transportation, metallurgy, machinery, electrical equipment and petroleum industries (Smith, 1980, p. 90). This resulted in a further concentration and centralisation of capital.

Looking at data from the Industrial Census of 1963 (by which time the biggest spurt of foreign investment was largely completed), one finds that while transnational firms comprised only 0.5 per cent of all industrial firms (666 out of 143057), they accounted for 25.1 per cent of total industrial production and 75.1 per cent of production in the ten most important industrial branches, measured in terms of value added. The transnational firms, together with a somewhat larger number of big locally-owned firms (many of whom also had significant linkages with transnational capital through portfolio investment, technology, management interlocks, etc.), formed the more advanced elements of a process of diversification of entrepreneurial leadership, and thereby comprised the dynamic core of the modern internationalised bourgeoisie expanding its dominance over the entire urban economy" (Smith, 1980, p. 91)<sup>13</sup>.

This internationalisation of the economy was made possible through the dismantling of state control over foreign exchange, prices, and wages, favouring the imposition of 'market rules'. As a result, wages declined from 48 per cent of the GDP between 1950-1955 to 38 per cent in the early 1960s (Smith, 1980, p. 93).

Economically, the most significant period between 1955 and 1966 is that of Arturo Frondizi's presidency. The main objectives of Frondizi's *Desarrollismo* (developmentalism) was that Argentina had to "1) pursue a strategy of 'deepening' its economy in order to construct an integrated industrial complex centred on basic industries (steel, chemicals, paper, machinery, etc.); 2) free itself from the international division of labour under US domination; and 3) develop large-scale,

highly capitalised agro-industrial enterprises" (Smith, 1980, p. 102). A list of investment priorities was drawn up which included the extraction of petroleum and natural gas; development of chemicals and petrochemicals; steel production; the extraction of coal and iron; and the automobile industry (Petrecolla, 1989, p. 110). These priorities were to be financed by foreign investment. The sanction of the law 14780 gave foreign capital rights equal to those of national capital. Almost no sector of activity was excluded from the entry of foreign capital. The latter could participate in import substitution industries, in the promotion of exports, or in the promotion of development activity to 'increase the growth of the country' (Petrecolla, 1989, p. 110).

At the very beginning of Frondizi's presidency there were significant wage increases; however, in 1960 a restrictive wage policy was put into effect. Collective bargaining agreements were signed for two years, during which a wage increase of 20-30 per cent was authorised, less than the price increases which went up over 30 per cent from 1959 to 1961 (Petrecolla, 1989, p. 113). This, together with attempts to reduce the number of state employees, caused a confrontation with the trade unions. In August 1961, the Minister of Economy, Roberto Alemann, announced that 75000 railway employees were to be laid off, "several lines would be closed down, and the working day would be increased from three and a half to six hours" (Lewis, 1992, p. 262). The railroad workers struck, and remained out until December when the reorganisation plan was abandoned. Thus, Frondizi, despite being elected through Peronist votes, could neither control nor demobilise the workers. They were the ultimate barrier to any non-Peronist restructuring of the state.

As noted earlier, Frondizi was expelled from the government because he allowed Peronism to run in the 1962 mid-term elections. Since José María Guido's administration was in office only 562 days it could not implement any significant economic changes. The economic strategy was characterised by the liberalisation of



the exchange market, the reduction in government spending, and greater monetary control (De Pablo, 1989, p. 135).

The 1963-1966 Radical administration was marked by recession, a large foreign debt and fiscal deterioration. The foreign financing of 1960-1961 added to the foreign debt which had been growing since 1955. "The resources gap, equivalent to the total of all current account deficits, reached US\$ 2000 million, which meant that between 1955 and 1962 the foreign debt annually financed 16 per cent of all imports or 1.7 per cent of demand" (Guadagni, 1989, p. 150). By 1963 the foreign debt was US\$ 3000 million with an annual service of US\$ 800 million (Guadagni, 1989, p. 150). Due to this situation, Illia's administration attempted to keep a positive balance on the current account. The key to the solution of the foreign debt problem is to be found in the favourable behaviour of the balance of trade, which as a result of a constant growth in exports, went from a deficit of US\$ 813 million in 1960-1962 to a surplus of US\$ 1480 million in 1963-1966 (Guadagni, 1989, p. 152).

At the beginning of Illia's administration, real wages increased. The government announced that in 1965 wages for the public sector would rise by 15 per cent. However, a harsh campaign from the trade unions, mainly through general strikes and occupations of work places, obliged the government to grant an increase of between 25 and 30 per cent for the first months of the year. Thus, by the end of the 1965, the wages of state employees rose by 50 per cent while the inflation rate was 20 per cent (Guadagni, 1989, p. 159).

Illia, like Frondizi, allowed Peronism to run in the 1965 mid-term elections. This, together with the growing opposition of the trades union movement, provoked the 1966 military coup. Illia's administration was, economically, successful, mainly due its management of the external debt problem. However, the 1955-1966 period was characterised by the incapacity of governments to control the trades

union movement and to demobilise the workers. Thus, the crisis of the Argentinian state was, from 1955 to 1966, expressed in a political form rather than an economic form.

### *iii. The economic strategy of the 'Argentinian Revolution'*

As noted earlier, the objectives of the 1966 military coup were different from the objectives of other military coups. As already quoted, the military government intended to be "a 'revolution' to sweep aside the entire 'corrupt' system of political parties and competitive politics, and not merely a coup to replace an individual president or a particular political party" (Smith, 1980, p. 109). Economically, the 1966 'Argentinian Revolution' attempted to stabilise the economy by reducing the role of the state.

Adalbert Krieger Vasena, Onganía's Minister of Economy, emphasised the control of inflation by the reduction of government expenditures, trimming state employees, raising taxes, and increasing public service rates. He decreed a total wage freeze until 1968 and price guidelines (Lewis, 1992, p. 282). Krieger Vasena attempted to launch a strategy of dependent industrialisation based on the expansion of foreign monopoly capital. The objective was first to stabilise the economy and, within this framework, eliminate distortions and increase productive efficiency, and then, generate industrial expansion with the aid of foreign capital (Corradi, 1985, p. 89).

Foreign capital did go to Argentina. By 1968 US investment in Argentina totalled US\$ 1148 million (Corradi, 1985, p. 90). This process, added to the one begun in the 1950s meant the denationalisation of capital and the liquidation of small and middle size industries. In addition,



"The new investments were characterised by a high organic composition of capital. The logic of their drive was to increase the weight of constant capital made up by machines and raw materials, but not in wages, tended to increase with the new advances in mechanisation. The upshot was a decline in the capacity of the industrial sector to absorb labour: the marginalisation of the working class that had been integrated into the system during a phase of labour-intensive exploitation" (Corradi, 1985, p. 90).

In this sense, the 1966 military dictatorship differed from other Armed Forces attempts to politically stabilise Argentina. This time the Armed Forces attempted to demobilise the workers by subordinating them in the economic sphere. In this sense the 1966 military dictatorship and Krieger Vasena's economic strategy were antecedents of the 1976 military dictatorship and its economic structural reform. However, the 1966 experiment was destroyed by the *Cordobazo*, suggesting that the military dictatorship could neither control nor politically demobilise the workers. On the contrary, the 1966 military dictatorship witnessed two *Cordobazos* and the emergence of the armed urban guerrillas.

Finally, the military dictatorship called elections which were won by the Peronist candidate. From 1955 to 1973 the Armed Forces attempted to destroy Peronism and to control the workers. The *Cordobazo* and the electoral victory of the Peronist candidate in 1973 highlight that not only had the military lost power but, worse, they had lost to the political movement they had set out to banish.

#### *iv. The last Peronist attempt*

In October 1973 when Juan Doming Perón took office, he attempted to reach a *Pacto Social* (Social Pact) between the trade unions and the business sector under the

aegis of the state. The *Pacto Social* was based on a price freeze and one wage increase of 13 percent. This resulted in an increase of the share of wages to 46 per cent of GNP, which represented more than four percentage points, reaching one of the highest levels of the previous ten years (Di Tella, 1989, p. 218). The Social Pact aimed to expand the domestic market, redistribute income in favour of the workers, achieve full employment, open new foreign markets (especially among the socialist countries), and promote manufactured exports (Smith, 1980, p. 537). The state would regulate foreign investments and international transfers of technology, promote small and medium size companies, and consolidate the public sector through limited nationalisation of foreign trade and some banking activities (Smith, 1980, p. 538).

In December 1973 there was an attempt to introduce some price flexibility which met with opposition from the trade unions which argued that price flexibility was a violation of the Social Pact. Wages were then increased by 20 per cent from March 1974. After this increase, prices began to rise (Di Tella, 1989, p. 220). To make things worse, the European Community closed its market to meat imports. "The surplus of the previous year's current account was reduced to about US\$ 200 million and, if the second part of the year is compared with the first, the change is even more dramatic, as it went from US\$ 400 million surplus to a deficit of nearly 300 million" (Di Tella, 1989, p. 220).

As indicated earlier, Perón's third presidency was marked by the confrontation of different sectors within Peronism, mainly, the trade unions and the revolutionary youth wing. Perón himself could no longer control them. During Perón's exile, the trades union movement had reached a high degree of autonomy from its former leader. Even Perón was opposed by the trade unions when he attempted to implement price flexibility. Perón, like Frondizi, Illia and, to a lesser extent the 1966 military dictatorship, granted wage increases in order to placate the trade unions opposition. The trades union movement proved, then, to be the strongest



barrier to any restructuring of the state. Even Perón, who was supposedly the only man capable of governing Argentina, was defeated by the opposition of the unions and the activity of armed urban guerrillas which were part of the Peronist movement, namely, the *Montoneros*.

After the death of Perón in July 1974, the Social Pact was abandoned. Perón's widow, María Estela Martínez de Perón, and her powerful Welfare Minister, José López Rega, dramatically changed the orientation of the government. They looked for the support of the business sector and the Armed Forces. The government's programme was to eliminate the armed urban guerrilla by means of paramilitary groups -the so-called *Triple A*-, to eradicate left-wing groups in the universities and schools, and to reduce wages in order to favour the business sector (Di Tella, 1989, p. 221).

In June 1975 the Economy Minister, Celestino Rodrigo, "announced an IMF-style shock treatment (i.e. a 50-per cent devaluation of the peso coupled with equivalent increases in public-sector prices, etc.) in a desperate attempt to stabilise the economy" (Smith, 1989, p. 229). The so-called *Rodrigazo* was an attempt to produce a real devaluation and to increase public tariffs through a shock, in order to correct the disequilibrium of the balance of payments and the fiscal unbalance (Damill and Frenkel, 1990, p. 7). Fanelli and Frenkel (1989, p. 9) point out that "the main features of the 1975 crisis were a fiscal deficit that averaged 15 per cent of GDP, a spurt of inflation which led the economy to the brink of hyperinflation and a marked disequilibrium in the current account accompanied by massive capital flight"<sup>14</sup>. As a consequence of the pressure of the CGT, through negotiations with the government and afterwards the organisation of strikes, the government authorised a 140 per cent adjustment in nominal wages. "From June to August consumer prices jumped 102 per cent. Production fell off sharply, and financial speculation reached astronomic levels. The state itself was one of the principal losers, facing an unprecedented fiscal crisis: the fiscal deficit for 1975 reached 17 per cent of the

country's gross domestic product" (Smith, 1989, p. 230). In the first three months of 1976, the Peronist government tried to implement a stabilisation plan, but it failed again. A 100-per cent devaluation of the peso, an increase of 90 per cent in publicly controlled prices, and an increase of 20 per cent in nominal wages were the main measures of the plan. The results were "in March, consumer prices shot up 38 per cent, while wholesale prices rose 58 per cent" (Smith, 1989, p. 230).

This economic crisis soon became a political crisis. The state was under pressure to restructure economic and social relations but it was unable to do so. The unions were, by this time, a barrier to any restructuring. As Clarke (1990, p. 27) points out the response to this crisis is the restructuring of the state and of broader class relations. This response in Argentina took the form, politically, of an authoritarian government.

### III. Conclusion

Peronism and its full incorporation of the working class into the political scenario put the class domination of the Argentinian capitalist state in danger. The Armed Forces, seizing power, attempted to restructure the state and its class relations. However, from 1955 to 1976, all their attempts failed. The institutionalised power of the working class was the ultimate barrier to such a restructuring.

This political instability unleashed an economic crisis since neither the Armed Forces nor the democratic governments of the period could stabilise Argentina's economy or achieve long-run economic growth. By 1976 the crisis of the Argentinian state was evident in both political and economic terms. Thus, the seizure of state power by the Armed Forces attempted to restructure the state and its class



relations politically by demobilising the workers, militarily by defeating the armed urban guerrillas, and economically by implementing a structural reform to make impossible any attempt to 'return to the past'.

The crisis of the Argentinian state was caused by the institutionalised power of the working class which put in danger the class domination. This is not to say that Argentina was in the brink of a 'social revolution', rather it is to say that the working class could not be controlled by the state. Argentina's working class did not attempt to make a 'social revolution', its only objective was to maintain the achievements of 1946-1955. Peronism, while bringing the working class into Argentina's political scenario, made any 'revolutionary' attempt impossible, since it established the perception that the state can benefit the working class, making the notion of class struggle unnecessary.

*under this* The 1976 military dictatorship attempted to resolve the crisis of the Argentinian state by implementing a 'monetarist' restructuring of the state. I turn now to analyse this attempt and its consequences for the 1983-1989 democratic government.

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<sup>1</sup> For a detailed account of the 1916-1930 period see Luna (1958), del Mazo (1959), Ciria (1964) and Galletti (1961).

<sup>2</sup> For an analysis of this period see Potash (1969), Luna (1958), Ciria (1964), and Puiggrós (1968).

<sup>3</sup> For a detailed account on this plot see Luna (1982) and Potash (1969).

<sup>4</sup> For an historical account of the emergence of *sindicalismo peronista* see Matsushita (1983), James (1988), Godio (1989) and Godio *et al* (1988), Cavarozzi (1984), Torre (1988), (1989), and (1990b).

<sup>5</sup> I deal with Frondizi's economic strategy below.

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<sup>6</sup> Adalbert Krieger Vasena "had served as an adviser to and a member of the boards of directors of several large corporations, including TNC(transnational corporations) subsidiaries, and was well connected with international organisations and banks" (O'Donnell, 1988, p. 72). I deal with his economic policy below.

<sup>7</sup> There were 68 national strikes in 1967; 50 in 1968; and 93 in 1969 (O'Donnell, 1988, p. 291).

<sup>8</sup> An excellent historical account of *Montoneros* is Gillespie (1982).

<sup>9</sup> Basic references for this period are Potash (1971), Rouquié (1983a), Perina (1983), and Cavarozzi (1983).

<sup>10</sup> For more details on the attempt to reach a social agreement see De Riz (1981) and James (1988).

<sup>11</sup> For more details on this period see De Riz (1981), James (1988), Di Tella (1983), and Landi (1978).

<sup>12</sup> This is the number commonly given by the organisations of human rights. The *Comisión Nacional de Desaparición de Personas (CONADEP)* - National Commission on Disappeared People- had heard evidence of 8960 cases (Argentina's National Commission on Disappeared People, 1986, p. XVI).

<sup>13</sup> For a detailed account of the role of foreign investment and the process of centralisation and concentration of capital see Azpiazu *et al* (1986) and Sourrouille *et al* (1985). The above mentioned 'big locally-owned firms' are the so-called *Grupos Económicos Nacionales* -GEN- (National Economic Groups) which, as I analyse below, played a crucial role in Argentina's economy during the 1970s and 1980s.

<sup>14</sup> For more details on this period see Diaz Alejandro (1969), (1970), Mallon and Sourrouille (1975), and Fanelli and Frenkel (1989).



## Chapter 3

### The 1976-1983 military dictatorship and its economic legacy

#### Introduction

In 1976 the co-existence of urban guerrillas, an organised working class and a weak government with neither political nor economic goals, was viewed by the Armed Forces and the upper bourgeoisie as sufficient reason to, once again, install their form of 'order' in Argentina. The aim of the alliance was to subordinate and control the working class, to undermine its capacity to organise itself as a class and to express itself politically. This *disciplinamiento social* was achieved by both State Terrorism and a structural economic reform. The objective of this chapter is to state the political and economic legacy of the military dictatorship, and to assess to what extent the economic reform produced an overwhelming increase of the external debt, a profound concentration of capital in the hands of a small group of national corporations (GEN), and the impoverishment of the working class.

The chapter is divided into four sections. The first section analyses the early years of the military dictatorship (1976-1981) when the strongest repression as well as the structural economic reform were applied. The main measures of the economic plans are examined, as well as their consequences for the agricultural sector, the industrial sector, and the labour market. The section also traces the origins of the external debt. The second section covers the last years of the dictatorship (1981-1983), examining the government's attempt to retain power. The third section describes the transition to democracy and the results of the 1983 general election. Finally, the conclusions turn to the legacy of the so-called *Proceso de Reorganización Nacional* (National Reorganisation Process). It analyses the consequences of the debt-led growth strategy, the concentration of capital and the

impoverishment of the working class, as they constitute one of the main constraints upon Alfonsín's government.

### I. 1976-1981: the apogee of the dictatorship

In 1976 a new military government was established in Argentina. The 'official' objective of the *Proceso de Reorganización Nacional* was the establishment of a new order in Argentinian society through Christian values, national security and justice. In reality, its main objectives were the removal of the guerrilla, the *disciplinamiento social* through the subordination of the working class in both the political and the economic sphere, and the recovery of the state as "the guarantor not of the *immediate* interests of the bourgeoisie, but of the ensemble of social relations that establish the bourgeoisie as the dominant class"<sup>1</sup> (O'Donnell, 1988, p. 2). Its objective was the restructuring of the state and of class relations.

As a consequence of the failure of the 1966 experience, this new dictatorship tried to correct the old mistakes in order to achieve its main objectives: the *disciplinamiento social* and economic 'normalisation'<sup>2</sup>. Therefore, the Armed Forces undertook a plan of structural reform of the Argentinian economy. Before describing this reform, let me briefly explain the juridical and social context upon which such an economic reform was applied.

#### i. The 'juridical' framework of the dictatorship

The suspension of constitutional rights and guarantees, and a new basis of rule given by acts and statutes made up the 'juridical' framework of the dictatorship. Two acts, one statute and one law were the main legal tools of the new government:



*Acta para el Proceso de Reorganización Nacional* (National Reorganisation Process' Act); *Acta fijando el propósito y los objetivos básicos para el Proceso* (Act fixing the outline and basic objectives of the National Reorganisation Process); *Estatuto para el Proceso de Reorganización Nacional* (Statute for the National Reorganisation Process); and law 21256 concerning the functioning of the *Junta Militar*, the Executive Power and the *Comisión para el Asesoramiento Legislativo* -CAL- (Commission for Legal Advice) which replaced the Parliament (Clarín, 25, 26, 27-3-1976). The *Junta Militar* was the supreme body, its duties were to secure the main objectives of the government and other bodies of the State, and to appoint and to remove the President. The *Junta* was formed by the three Commanders-in-Chief who would choose the President from the highest officials from the Armed Forces. The first *Junta Militar* was formed by Lt. General Jorge R. Videla, Brigadier Orlando E. Agosti and Admiral Emilio E. Massera (Clarín, 25-3-1976, p. 2-3).

The *Junta* determined that the activity of political parties and trade unions was forbidden, including the ability to strike (Abós, 1984, p. 7). The peak organisation *Confederación General del Trabajo* -CGT- was declared illegal (Abós, 1984, p. 7).

Lt. General Videla was appointed President of Argentina until March 1978<sup>3</sup> and he named José A. Martínez de Hoz<sup>4</sup> as Economics Minister. While Martínez de Hoz was trying to achieve the social discipline through an economic structural reform, the *Junta* implemented State Terrorism as another tool of achieving the *disciplinamiento*.

## ii. State Terrorism

The *Junta Militar* continued and deepened the 'dirty war' which had already begun with 'the triple A' <sup>5</sup>. State Terrorism was imposed by kidnapping, tortures and

the assassination of thousands of people. Politicians, journalists, workers, trade unionists, intellectuals, students, nuns, priests and members of the *Montoneros* (the revolutionary-wing of the Peronist Party) and the Marxist *Ejército Revolucionario del Pueblo* (People's Revolutionary Army) were tortured and killed. Smith quotes General Luciano Menéndez, the head of the Third Army in Córdoba during the first years of the *Proceso*, and says that Menéndez "observed that there existed a division of labour within the regime: 'While Videla governs, I kill'. Menéndez also acknowledged that: 'We are going to kill 50000 people: 25000 subversives, 20000 sympathizers, and we will make 5000 mistakes'" (Smith, 1989, p. 232).

On the 30th of April 1977, a group of mothers of the *desaparecidos* went to the Plaza de Mayo to demand from the government information about the fate of their lost relatives. They formed a group called *Madres de Plaza de Mayo* (Mothers of Plaza de Mayo). One of the founders, Azucena Villaflor de Vicenti, declared that every Thursday they would repeat the march around the square until the disappeared were accounted for (*aparición con vida*). Later, she disappeared (Fontana and Llenderrozas, 1992, p. 158). The Mothers of Plaza de Mayo became a pillar of the struggle for human rights. They demonstrated that, while large sectors of the Argentinian population seemed apathetic in the face of State Terrorism, a number of groups were reacting against it.

State Terrorism was seen as the principal political way of achieving social discipline. The Armed Forces established an organised net of terror. In the knowledge that they would not be punished, Army officials kidnapped people from their work, home or the street. After being tortured, some were killed and some were used to lure others for kidnapping. Most of them have never appeared again. The Armed Forces argued that the situation was akin to a war and that, due to the nature of the enemy, it was a very special kind of war (Andersen, 1993). However, when the Armed Forces took control the guerrilla movement was already almost defeated by the 'Triple A'. The guerrilla threat was essentially a excuse to justify the use of violence



as a means of achieving social discipline<sup>6</sup>. Thus, State Terrorism was another way to demobilise the working class; indeed, thirty per cent of the *desaparecidos* (the largest single group) were workers (Argentina's National Commission on Disappeared People, 1986, p. 448).

### *iii. The economic policy of the dictatorship*

The economic policy proposed by the Martínez de Hoz's team<sup>7</sup> implied the "opening and reinsertion of Argentina's domestic economy into the world economy according to strict criteria of efficiency and the law of comparative advantages" (Smith, 1989, p. 234). It favoured a short-term capital market with high liquidity, increased the public and private external debt, and redistributed income through salary reductions.

Retrospectively, Martínez de Hoz, explained that the objective of his administration was to "implement a structural reform of the economy and not only to overcome a crisis" (Di Tella and Rodríguez Braun, 1990, p. 151). Through the liberalisation and modernisation of the economy, the government wanted

"to encourage individual effort and initiative, to reintroduce competitiveness into the Argentine economy, to encourage saving and investment as the launching-pad for capitalisation, to attain a more efficient resource allocation with a focus on activities with a higher productivity rate in relative terms, and thus to attain a rise in the average productivity rate and subsequently in the standard of living" (Di Tella and Rodríguez Braun, 1990, p. 153).

Martínez de Hoz describes his plan as consisting of four programmes: stabilisation, liberalisation, modernisation of the economy, and streamlining of the state (Di Tella and Rodríguez Braun, 1990). The first measures were the

liberalisation of prices, the opening up of domestic markets to foreign capital<sup>8</sup>, the liberalisation of exports and imports through the elimination of tariffs, the elimination of subsidised fuel prices, the freezing of wages, and a taxation reform consisting of the generalisation of Value Added Tax (VAT).

At the very beginning Martínez de Hoz introduced two exchange rates: a financial rate, applied to financial transactions and stabilised until the end of 1976, and a commercial rate, applied to foreign trade and increased gradually until the end of 1976. The latter increased to achieve equality between both exchange rates by the end of the year. The monthly inflation rate in April 1976 was over 50 per cent; after the application of the new exchange rates it was 7 per cent, and by the end of 1976 this rate was stable between 5 per cent and 9 per cent (Schvarzer, 1986a, p. 47).

With regard to real wages, the share of the wage earners fell dramatically, as table nº 1 shows, as a result of the *Proceso*.

**Table nº 1**  
**Wage bill as a share of national income**  
**1974-1981**  
**(percentages)**

1974	50.5
1975	48.9
1976	33.6
1977	31.8
1978	33.6
1979	31.9
1978	36.9
1980	33.9
1981	32.5

Source: Orsatti, A. (1983) La nueva distribución funcional del ingreso en la Argentina, *Desarrollo Económico*, nº 91 (Buenos Aires: IDES).



A comparison of inflation rates and changes in real wages shows the damage done to wage earners.

Table nº 2  
Inflation rate  
1974-1981  
(percentages)

1974	40.0
1975	335.1
1976	349.0
1977	160.0
1978	169.0
1979	140.1
1980	87.5
1981	131.2

Source: Frenkel et al. (1992) *Argentina. Evolución macroeconómica, financiación externa y cambio político en la década de los 80* (Madrid: CEDEAL).

Table nº 3  
Real wages per sector  
1974-1981  
(1976=100)

	Industrial workers	Public administration	Services
1974	159.0	159.6	173.4
1975	149.0	166.9	139.3
1976	100.0	100.0	100.0
1977	101.0	92.9	98.5
1978	98.2	108.0	111.0
1979	112.1	113.4	125.2
1980	124.1	139.9	135.5
1981	114.2	115.5	121.2

Source: Gerchunoff, P. and Dieguez, H. (1984) La dinámica del mercado laboral urbano en la Argentina 1976-1981, *Desarrollo Económico*, nº 93 (Buenos Aires: IDES).

At the very beginning of the dictatorship there was a substantial redistribution of income. In the first year of the dictatorship, the wage bill as a share of the national income decreased 31 per cent. A comparison between inflation rates and real wages between 1974 and 1976 highlights the damage done to wage earners. If in 1974 the real wage of an industrial worker was 159, in 1976 it equalled 100<sup>9</sup>. During this two year period the inflation rate went from 40.0 per cent in 1974 to 394.0 per cent in 1976. This means that as the inflation rate increased 772.5 per cent from 1974 to 1976 the real wage of an industrial worker decreased 37 per cent in the same period.

Despite the prohibition of trade union activities, the labour movement organised strikes, go-slows and lightning stoppages as a response to the reduction of wages policy. The most persistent form of labour protest was the so-called *trabajo a desgano* (work to rule). In September 1976, there were conflicts in General Motors, Ford, Fiat, Peugeot and Chrysler. The government decided to establish the law 21400 which determined that everyone who participated in strikes would have a punishment of six years in prison, with ten years for those instigating strike action (New York Times, 9-9-1976, p. 8). Nevertheless, on the 5th October, a series of strikes by the electricity workers began. The cause of the strike was the sacking of 108 workers from the state electricity company of Buenos Aires, as part of the plan to rationalise state expenditure by cutting down the number of workers. The sacked workers included the entire executive committee of the unions, and a considerable number of shop floor representatives. By the 11th October, in Buenos Aires city, most of the workers had returned to work; however, in Buenos Aires province the workers began a work-to-rule campaign. The day after, three union members were kidnapped from their homes by armed civilians (Latin America Political Report, 15-10-1976, vol X, nº 40). The stoppages began again with power cuts in industrial areas. The light and power workers went on working 'with sadness' (*trabajo a tristeza*)<sup>10</sup>. The confrontation ended on 29th October following



government threats to draft union members into the army (Latin America Political Report, 5-11-1976, vol X, nº 43). In March 1977, the power workers started a work-to-rule campaign as a response of the kidnapping of their union leader Oscar Smith (Latin America Political Report, 1-4-1977, vol XI, nº 13). In October 1977 there was a national rail strike (Abós, 1984, p. 11). The railway strike began on 26th. The stoppages and go-slows among the railway and underground workers of Buenos Aires latterly spread to the dockers of Buenos Aires and Rosario, who also began a work-to-rule campaign. The power workers of Rosario and Santa Fé, and state oil company workers (*Yacimientos Petrolíferos Fiscales -YPF*) also began a work-to-rule campaign. At the same time, 25000 workers at the *Alpargatas* textile industry stopped work in support of a wage claim and were joined later by the 25000 workers of *Peugeot* plant. By 11th November all the workers went back to work after wage increases of 40 per cent (Latin America Political Report, 11-11-1977, vol XI, nº 44). These strikes show that, despite the efforts of the dictatorship to demobilise the unions -mainly through the prohibition of strikes, the 'illegality' of the CGT as the peak organisation, and State Terrorism-, the workers could still organise themselves and demonstrate against the military dictatorship. In this sense, they developed new forms of social demonstration such as the *trabajo a tristeza*, which were not forbidden by the dictatorship. Thus, State Terrorism and the economic reform, could not completely demobilise the unions.

In March 1977, Martínez de Hoz applied a price freeze which was the first step of the financial reform of June 1977. The reform liberalised capital flows and deregulated the financial system. This reform, through the liberalisation of interest rates, enabled banks to recover their central position within the financial system, instead of being mere intermediaries of the Central Bank (Canitrot, 1981, p. 143)<sup>11</sup>. The financial reform linked the banking system to short-term capital markets which made state companies look for new capital markets to satisfy their financial needs. According to Canitrot (1981, p. 123) the financial reform was a

political decision connected with the long-term project of the dictatorship. As the military government sought the liberalisation of the economy, the plan required this kind of financial reform since its purpose was to make the market an instrument through which social discipline would be achieved.

The wage-price spiral of the economy (*indexación*) was the main obstacle to stabilising the economy. Therefore, in May 1978 a *desindexación*<sup>1 2</sup> plan was applied through the exchange rate and public tariffs. Damill and Frenkel (1990, p. 12) point out that while the accumulated devaluation in 1978 was 68 per cent, the retail price index increased 178 per cent. Therefore, it was clear that the plan could not stop inflation.

In December 1978 a new plan was announced which signified that "future exchange-rate devaluations and changes in public-sector prices would systematically be adjusted below the rate of private-sector price increases. In theory, at least, this was to force inflation downward" (Smith, 1989, p. 239). The *desindexación* was made through a *tablita* (little table) which indicated the future rate of devaluation. This plan was applied with the liberalisation of the capital market which was to regulate the interest rate and allow the convergence of internal and international prices.

This Plan had been framed in the 'monetarist' approach to the balance-of-payments. As it is well-known 'monetarism' "is a policy which expresses a deep confidence in the free market system" (Cole et al, 1991, p. 90). The stabilisation policies must limit money and credit growth, reduce the fiscal deficit, and implement a real devaluation. They also promote privatisation, limit government expenditure, and attempt to avoid price distortions by reducing state economic intervention. Thus, this 'monetarist' approach to the balance-of-payments is a tool to achieve external balance and to stabilise domestic prices (Cole et al, 1991, 261). This 'monetarist' strategy is, indeed, the basis to economically discipline the working class. In this



approach, the money and market take the role of regulator of the economy. In this sense, the approach represents a radical restructuring of the working class since it has to accept the discipline of the market forces. As explained earlier, during the sixties and early seventies, the resistance of the working class was the ultimate barrier to the resolution of the crisis of the Argentinian state. Through the implementation of 'monetarism' -which came to dominate the world economy in the 1980s and 1990s- the resistance of the working class could be broken down "by exploiting and intensifying divisions within the working class as the basis on which to secure its political demobilisation" (Clarke, 1990, p. 27). This was the objective of the dictatorship, the so-called *disciplinamiento social* -which meant to eliminate any vestige of Peronism and working class power- was to be achieved by the implementation of 'monetarism' to give to the market and money the role of regulator of the economy.

The social response to the plan of December 1978 was the first national strike during the military government on the 27th of April 1979 (Abós, 1984, p. 48). Although all the leaders of the trade-unions who organised the strike were imprisoned, the strike occurred and enjoyed total support in the industrial sector (Abós, 1984, p. 49).

In March 1980 the winding-up of one of the biggest national banks (*Banco de Intercambio Regional- BIR* ) caused a deep financial crisis (Schvarzer, 1986a, p. 98). The Central Bank, reversing an initial policy commitment, had to guarantee the deposits. In September 1980, the Central Bank decided to devalue the *peso* further. Therefore, devaluation during the last three months of 1980 was 1 per cent per month. In February 1981 the devaluation-rate was 10 per cent; and 3 per cent per month until August 1981 (Schvarzer, 1986a, p. 106).

The monthly inflation rate could not be stopped, and after five years of different plans and programmes, Lt. General Videla and his Minister of Economy left

the government in March 1981. At the beginning of 1981 "massive capital flight had reduced foreign-exchange reserves by more than \$2 billion; interest rates had risen to annual rates more than 200 per cent; and the public sector deficit had soared out of control" (Smith, 1989, p. 242). The fiscal deficit as a percentage of GDP went from 7.5 in 1980 to 13.5 in 1981<sup>13</sup>.

Before outlining the position of Lt. General Roberto Viola's administration, let me explain the consequences of the Martínez de Hoz's economic policy for the agricultural sector; the industrial sector; the conditions in the industrial labour market; and the origin of the external debt.

#### *a. The agricultural sector*

Argentina's main agricultural products are maize, sunflower, soya, sorghum, wheat and meat. The agricultural sector represented about 12 per cent of the GDP throughout the period 1976-1981; and, according to the National Census of 1980, 12 per cent of total employment was accounted for by the agricultural sector (Di Tella and Rodríguez Braun, 1990, p. 213).

The rural sector production represents only 15 per cent of GDP (Fanelli and Frenkel, 1989, p. 30), however it plays a fundamental role with regard to both short run stability and growth: land-and-cattle production is the main source of foreign exchange (60 per cent of total exports originate in this sector); the goods produced by the sector represent 15 per cent of the consumer's purchases; and it contributes significantly to government revenues (Fanelli and Frenkel, 1989, p. 30).

The unification of exchange rates and the fall in export taxes were favourable to the agricultural sector. In 1976 the sown field surface of wheat increased by 40 per cent -over the average of the last five years- as a consequence of the positive



measures of the Martínez de Hoz's plan and of technological development <sup>14</sup>. Due to this increase the crop reached 11 million tons, a record quantity (Schvarzer, 1986a, p. 151). Therefore, the agricultural GDP and traditional exports rose significantly in 1976 and 1977. The growth of the production of grains for the whole period (1976-1981) was about 6.8 per cent annually (Cavallo and Cottani, 1991, p. 140). Another aspect of the period was the "increase on yields for a number of crops, especially oil seeds. This was due to technological improvements (for instance, more intensive use of chemical fertilizers and adoption of new crop varieties) which were fostered by trade liberalisation" (Cavallo and Cottani, 1991, p. 140). After 1977, because of the financial reform and the fiscal and monetary policies implemented, the situation for the agricultural sector was modified and in 1980 production and exports fell (Cavallo and Cottani, 1991, p. 142). The agricultural sector suffered due to the extreme overvaluation of the *peso*, and so by 1981 the situation of the farmers had deteriorated.

The main feature of the period is the technological improvements which were obtained through trade liberalisation. Due to this benefit, the agricultural sector mainly supported the economic strategy of the military dictatorship (Schvarzer, 1986a, p. 151). Indeed, despite the overvaluation of the *peso* in 1981, in general terms the economic strategy was beneficial for the sector; most notably, the unification of the exchange rate and the fall in export taxes.

#### *b. The industrial sector*

The main branches of the Argentinian industrial sector are foodstuffs, textiles, chemicals, steel and other basic metal industries, capital goods and the automobile industry. For each of these branches the consequences of the Martínez de Hoz's administration were quite different. However, from a general point of view, scholars<sup>15</sup> agree that the industrial sector was the most severely affected by this

economic policy. The first blow to the industrial sector was given by the financial reform of 1977 because of high interest rates which stimulated short-run transactions. Therefore, all the benefits gained by the reduction of wages -by almost 40 per cent- were lost in extra financial costs (Schvarzer, 1986a, p. 179).

Smith (1989, p. 241) argues that "protective tariffs were further reduced, thus forcing traditionally high-cost firms to face the effects of stiff competition from cheap imported goods. The magnitude of this foreign competition can be gauged by the dramatic jump in total imports: 73 per cent in 1979 and 56 per cent in 1980". He also argues that the Martínez de Hoz team knew that this policy would severely affect the industrial sector, but they believed it was necessary to restructure the Argentinian industry (Smith, 1989, p. 241).

According to Kosacoff's analyses (Azpiazu and Kosacoff, 1989, p. 20) industrial production fell 20 per cent between 1975 and 1982; the share of the industrial sector in the GDP fell from 28 per cent to 22 per cent in the same period; 20 per cent of the biggest companies closed; and the share of industrial workers in national income fell from 49 per cent in 1975 to 32.5 per cent in 1982. The sectors most severely affected were textiles and metallurgical industries, while foodstuffs and chemicals were less affected than the average of the whole industrial sector (Dorfman, 1983, p. 112).

In terms of industrial branches, the paper producing branch expanded. Cavallo and Cottani (1991, p. 148) point out that "between 1976 and 1978 officially promoted investment plans were approved for a total of over a billion dollars. Tariffs on imports were increased from 10 per cent to 15 per cent in 1976 and 20 per cent in 1977, a remarkable exception to the trade policies pursued at the same time in other branches". Regarding the chemical branch, "exports were promoted and increased steadily during the 1970s and both production and employment performed better than the manufacturing average" (Cavallo and Cottani,



1991, p. 148). As "steel and aluminum were the only exceptions to the elimination of quota restrictions started in 1976" (Cavallo and Cottani, 1991, p. 149) steel production increased between 1978 and 1981, and imports fell.

The capital goods branch was discriminated against by the trade policies in two different ways: by an unscheduled acceleration in the rate of tariff reductions and by the maintenance of high levels of protection in the industries supplying basic metal inputs. The big change in the policy applied to this branch was because "the authorities wanted to foster the incorporation of technologically advanced imported equipment to improve industrial efficiency in capital intensive branches. Thus, in order to favour some activities, the domestic production of capital goods was hurt" (Cavallo and Cottani, 1991, p. 149). The automobile industry was also severely affected. By 1978 three plants closed (General Motors, Citroën and IME) and two others merged (Safrar-Peugeot and Fiat). Employment decreased significantly in this sector, but its productivity was less affected.

The promotion of different sectors shows a restructuring process occurring in industrial production. During the sixties and early seventies the promoted branches were automobiles, capital goods and metallurgy; while in the mid-seventies paper producing, chemical, steel and aluminium branches were promoted. This process was also a response to changing international trade: as a consequence of the protectionist measures applied by the European Community and the United States Argentina could no longer be solely an agricultural producer (Chudnovsky, 1991, p. 3).

Most importantly, the process shows that the financial sector was strengthened during this period at the expense of industrialists. Crystal (1994, p. 137) points out that "as a reaction to 'economic chaos', the regime followed a course whose essential meaning was ... in the nature of a determined drive to force all producing groups to accept the discipline of market forces". This strategy was

another way of breaking the power of the organised working class. Indeed, the promoted branches -paper producing, chemical and steel and aluminium- did not have historically powerful unions, while automobile, capital goods and metallurgical branches, which were discriminated against, did have historically powerful unions. The SMATA (*Sindicato de Mecánicos del Transporte Automotor*) and UOM (*Unión Obrera Metalúrgica*), which represented the workers from the automobile and metallurgical industries, respectively, are among the most historically powerful unions in Argentina<sup>16</sup>.

Table nº 4 shows the industrial activity by branches.

**Table nº 4**  
**Industrial activity. Main Branches.**  
1970=100

	Foodstuffs	Capital Goods	Textiles	Paper Prod.	Chemicals	Basic Metals
1975	111.1	124.0	112.1	120.2	119.0	123.4
1976	114.4	121.7	106.0	105.2	121.0	115.5
1977	107.2	148.7	110.0	105.3	122.8	128.1
1978	101.5	118.5	94.4	108.7	113.1	121.1
1979	103.1	134.6	104.6	110.6	127.0	141.7
1980	102.1	130.8	92.3	101.9	128.0	128.0
Growth rate						
75/80	-7.7	5.5	-17.7	-15.2	7.6	3.7

Source: Canitrot, A (1981) *Teoría y práctica del liberalismo. Política antiinflacionaria y apertura económica en la Argentina, 1976-1981*, *Desarrollo Económico*, nº 82 (Buenos Aires: IDES).

According to Canitrot (1981, p. 185), between 1975 and 1980, industrial output contracted 2.6 per cent. The growth of the capital goods branch is quite significant because as pointed out above, this branch was discriminated against. Canitrot (1981, p. 185) suggests that the growth of this branch shows that the imports of capital goods were complementary to national production. Another point of



interest is the fall in paper production, despite this sector being promoted by government policies: the results of these policies would not be seen until the early eighties.

Regarding industrial employment, Canitrot (1981, p. 185) argues that its fall was one of the most significant modifications of the period.

**Table nº 5**  
**Industrial employment**  
1970=100

	Foodstuffs	Capital Goods	Textiles	Paper Prod.	Chemicals	Basic Metals
1975	121.9	123.4	111.7	103.7	124.1	136.2
1976	122.7	116.5	107.2	94.3	125.7	130.8
1977	117.5	108.9	98.4	84.8	119.0	127.2
1978	105.6	96.9	87.4	82.8	108.9	119.0
1979	105.8	96.7	79.9	81.2	105.6	119.0
1980	108.0	88.8	64.1	81.4	73.9	114.7
Growth rate						
75/80	-11.4	-28.0	-42.6	-21.5	-40.5	-15.8

Source: Canitrot, A (1981) Teoría y práctica del liberalismo. Política antiinflacionaria y apertura económica en la Argentina, 1976-1981, *Desarrollo Económico*, nº 82 (Buenos Aires: IDES).

Industrial employment declined 26 per cent from 1975 to 1980. It is remarkable that in all industries -whether or not their activities have increased- employment fell. For instance, chemicals, which shows the highest growth rate of activity in the period, shows a fall in employment of 40.5 per cent. Therefore, this shows that the economic reform was, indeed, a tool for the restructuring of class relations.

### *c. State and industry*

Under Lt. General Videla's administration, the role of the State was fundamental through the restructuring of the industrial sector<sup>17</sup>, its purchases in the private sector, the privatisation of some public companies, and public investment<sup>18</sup>.

Daniel Azpiazu (Azpiazu and Kosacoff, 1989, p. 93), in his analyses of the promotion of the industrial sector, concludes that the beneficiaries of this policy were the national corporations, or GEN. He states that 50 projects -which represented 7.2 per cent of total projects presented in the period studied- represented 70 per cent of total investment, and were directed to highly concentrated industries. Therefore, industrial policy served, through the pattern of subsidies, to further concentrate production.

Manufacturing exports were also promoted in various ways <sup>19</sup>. From the manufacturing branch, the chemical industry, steel and other basic metal industries have the main share of industrial exports. These industries increased their participation in total exports as a consequence of the low demand in the internal market and also because of state promotion of these industries. On the other hand, capital goods and the automobile industry's share fell as a consequence of industrial policy. While the purchasing power of industrial exports decreased 6.4 per cent from 1973 to 1986, the volume of industrial exports increased more than 80 per cent in the same period (Azpiazu and Kosacoff, 1989, p.120).

Regarding the privatisation process, Schvarzer (1986a, p. 266) emphasises that the State in many cases decided to close the company instead of selling it. This was the case with *Industrias Mecánicas del Estado*, a state-owned steel company (Schvarzer, 1986a, p. 266). There was also a process of 'peripheral privatisation',



that is a subcontract between a public company and a private one through which the former delegated some of its activities.

The restructuring of the industrial sector meant increasing the concentration of capital in the biggest national corporations, destroying the small and medium size companies. As said, the latter had constituted the so-called 'domestic bourgeoisie' which, allied with the working class, had been Peronism's support base. The GEN were strengthened at the expense of the 'domestic bourgeoisie'. Second, privatisation weakened the working class organisation, whose strength was institutionalised in public companies. Moreover, as said, the government decided in some cases to close down companies instead of selling them. Thus, a prime objective of the economic reform was to restructure the role of the state as economic regulator and the organisation of the working class.

#### *d. The industrial sector after Martínez de Hoz*

After Lt. General Videla's government the problems of the industrial sector were deindustrialisation, the limited internal market, high costs, and the 'denationalisation' of important sectors of the industry (Dorfman, 1983, p. 583). This policy led to the closure of a large number of small and medium size companies, most of them related to the metallurgical industries, producing significant 'idle capacity' of productive equipment (50 per cent) and considerable dependency on industrial exports (Dorfman, 1983, p. 583). In addition, there was a process of external desinvestment and capital repatriation. In 1973 the share of the transnational corporations in the value of the industrial production was 30.8 per cent; in 1981 their share fell to 28.6 per cent, rising slightly to 29.4 per cent in 1983 (Azpiazu and Kosacoff, 1989, p. 194). Most of the transnational corporations were automobile and capital goods industries; these industries slumped during the early 1980s, and some transnational corporations left Argentina<sup>20</sup>.

A comparison between the National Economic Census of 1974 and 1985 shows that in 1974 there were 129.678 companies in the manufacturing industry with 1.555.538 employees; in 1985 there were 111.767 companies with 1.359.489 employees, which means that in eleven years 17.911 companies were closed (Minsburg, 1987, p. 99).

An analysis of the situation of the 100 biggest companies (according to their sales) in 1975 and 1981 concludes that from the group of 1975, 33 do not appear in the group of 1981. From this 33, 20 go down in the ranking and 13 disappear. The number of companies with a negative balance in their sales increased from 14 in 1975 to 39 in 1981. The analysis of the changes shows that 6 companies were absorbed by others and 15 companies changed ownership (Schvarzer, 1986a, p. 202). Therefore one of the consequences of the Martínez de Hoz's plan was the trend towards the concentration of big 'economic groups' who diversified their activities to minimise risk. Most of them were organised around one holding company whose success was a consequence of the protectionist activities of the State. These groups grew up during a period of economic stagnation.

Another indicator of crisis in the industrial sector is the increasing level of unemployment. From a base index of 100 in 1975, the level of employment in the second six months of 1980 fell to 84.5; in the same period of 1981, to 74.4 ; and in the same period of 1982, to 72 points (Dorfman, 1983, p. 113). According to the *Unión Industrial Argentina* in 1980 the number of unemployed and underemployed was 1.500.000 which represented 14 per cent of the population of working age (Caputo, 1982, p. 124).

Martínez de Hoz himself explains that

"our policy was not meant to wipe out our industry but, on the contrary, to strengthen it through competitiveness. A slogan proclaims that we are to blame for the 'destruction'



of the productive apparatus, but the word 'modernisation' would be more to the point. While it is true that many industries disappeared -due perhaps to their own obsolescence- they were replaced by more modern newcomers" (Di Tella and Rodríguez Braun, 1990, p. 159).

The national corporations or *Grupos Económicos Nacionales* are these 'modern newcomers'. However, Martínez de Hoz does not explain that their development was not directly connected to the economic development of the country. On the contrary, while these 'modern newcomers' appeared, Argentina was undergoing a profound economic crisis. Their economic growth was based on the closure of companies and the absorption of some activities which were previously assumed by the state. The success of these groups was a consequence of the redistribution of ownership and of a new distribution of activities between the public and the private sector. Most of the GEN owed their success to state sponsorship. The GEN control big industrial companies which are connected to the agricultural, financial and construction sectors (Basualdo and Azpiazu, 1990, p. 15). Another significant result of Martínez de Hoz's economic strategy was the diversification of the transnational companies, which adopted the same characteristics of the GEN (Basualdo and Azpiazu, 1990, p. 15). Generally, both, the GEN and the transnational companies, are oligopolies. For instance, Celulosa Argentina and Massuh control paper production. Garovaglio y Zorraquín and Perez Companc control the most important national banks. The latter also controls petrochemical and metallurgical production. Bunge y Born controls the biggest companies in the foodstuff sector, an important textile company and a paint company (Basualdo and Azpiazu, 1990, p. 156). The industrial promotion applied by the military dictatorship further accelerated this centralisation and concentration of capital in the GEN and transnational companies<sup>2 1</sup>.

The development of the GEN and the transnational companies can be analysed through the evolution of the number of subsidiaries they held. There were 30 GEN in



1973 which had 277 companies, 33 in 1983 with 586 companies and 31 in 1986 with 665 companies. For the same years, there were 31 transnational companies with 327 companies, 31 with 434 companies and 29 with 426 companies, respectively (Acevedo *et al*, 1990, p. 52). Therefore, although the years of the military dictatorship can be characterised as a period of economic stagnation, the GEN as well as the diversified transnational companies achieved a quite significant expansion. Another factor which helped the development of the GEN was their international connections which allowed them to obtain foreign credits<sup>22</sup>. The private external debt, 68 per cent of which was accounted for by the GEN and the transnational companies (Basualdo, 1987, p. 74), was transferred to the state in 1982, a decision of the President of the Central Bank, Domingo Cavallo<sup>23</sup>.

The emergence of the GEN was, therefore, a consequence of the absorption by the biggest companies of small and medium size companies which went bankrupt, and of the creation of new companies through state financing <sup>24</sup>. In this sense, Martínez de Hoz's modernisation produced significant changes in the industrial structure.

Others beneficiaries of Martínez de Hoz's policy were the financial mediators and the most concentrated sector of the *Pampeana* bourgeoisie. The latter began to transfer its profit to the financial market, instead of investing it in the agricultural sector, without losing productivity (Jozami, 1985, p. 179). The biggest companies gained benefits from the transfer of both their funds and activities to the financial arena. Thus, the state was losing control of the system, which started to depend on the decisions of a growing private financial sector (Schvarzer, 1986a, p. 35). Therefore, as a consequence of Martínez de Hoz's 'modernisation', there was a crucial transformation in social relations and in the role of the state.

Martínez de Hoz's economy policy promoted the modernisation of a small group of large firms which achieved considerable economic growth in a context of stagnation. What the former Minister does not explain is the other side of the coin,



that is, the impoverishment of the working class. An analysis of the industrial labour market shows this to be the other side of Martínez de Hoz's 'modernisation'.

*e. The conditions of the industrial labour market*

After the dictatorship, the two main results for the industrial labour market were its *desasalarización* and its *terciarización*. The former derives from the reduction of the number of wage-earners because of the transfer of workers from the industrial sector to the 'black market'. The latter refers to the transfer of workers from the industrial sector to the service sector. A brief description of the conditions of the labour market will help to understand these two processes.

There were two moments which severely affected the labour market. The first was in 1975 with the so-called *Rodrigazo* and its redistribution of income; the second one was at the beginning of the dictatorship with another redistribution of income through the freezing of wages (Gerchunoff and Dieguez, 1984, p. 4).

Workers real wages decreased between 1974 and 1978 by 49 per cent <sup>25</sup>. The wages in the manufacturing sector, in 1977, were 66.3 per cent of the wage of 1975 (Azpiazu and Kosacoff, 1989, p. 176). As table nº 1 has shown, the percentages of income going to wage earners has decreased 31 per cent from 1975 to 1976. During the military government this percentage was around 33 per cent of national income while in the early seventies it was 45 per cent. Turning to tables nº 2 and nº 3 the comparison between inflation rates and real wages shows that inflation increased 772.5 per cent from 1974 to 1976 while the real wages of an industrial worker decreased 37 per cent in the same period. The decline in the purchasing power as well as the saving power of an industrial worker can be shown through the increase of poverty in Greater Buenos Aires (the most industrialised area of Argentina).

Table nº 6  
Percentage of poor population of Greater Buenos Aires<sup>26</sup>

Poor population		Poverty groups	
		Structurally poor*	<i>Pauperizados</i> * *
1974	34.30	31.10	3.20
1980	31.30	21.20	10.10
1982	51.10	23.10	28.00

\* 'Structurally poor' are those with severe problems of housing, social infrastructure, and incomes inadequate to cover basic needs.

\* *Pauperizados* means working class families that had, in the past, a reasonable standard of living but had been pushed into poverty conditions not different from that of the 'structurally poor', as Minujin (1991) points out, "they did not inherit poverty; they acquired it" as a consequence of economic crisis.

Source: Boron, A. (1992) *La pobreza de las naciones. La economía política del neoliberalismo en la Argentina*, mimeograph (Buenos Aires: EURAL).

In eight years the *pauperizados* group increased 775 per cent while the structurally poor group decreased 25 per cent and the total poor population rose by 49 per cent. The *pauperizados* are the most relevant group since their position is a clear consequence of the Martínez de Hoz's political economy and 'modernisation'. The *pauperizados* are the consequence of the dismantling of the industrial sector, the closure of small and medium size companies, and the fall of the real wages. The number of 'structurally poor' remained unchanged. After Martínez de Hoz's 'modernisation', the 'structurally poor' were still living in *villas miserias* (shanty towns) without sanitary services, between four or more people sharing a single room. Although their situation followed the general economic recession, it did not change dramatically. However, as it is defined, the *pauperizados* were working class families pushed into, and beyond, the conditions of the 'structurally poor'.

The increase in poverty was a cause of the decrease of the number of industrial workers; it went from 1.165.000 in 1975 to 740.000 in 1982, which



represents a fall of 36 per cent in seven years. During 1975 and 1980 employment decreased annually by 1.3 per cent and public employment by 6 per cent (CEPAL, 1990, p. 23).

On the other hand, from the employer's point of view, labour costs decreased from 43 per cent in 1974 to 35.7 per cent in 1976 (Azpiazu *et al*, 1986, p. 113). In addition, productivity was increasing 37.6 per cent from 1974 to 1983. These two factors meant that the absolute profit level and profit rate increased. As wages decreased, it was calculated that the funds appropriated by the industrial employers increased 69 per cent from 1974 to 1983 (Azpiazu *et al*, 1986, p. 115).

Therefore, the conditions of the industrial labour market were severely affected by the Martínez de Hoz's political economy. Moreover, these new conditions also affected the power of the trade unions and the power of the working class, because the fall in the number of the wage-earners implied that the trade unions were losing members as well as power. For instance, in 1978 the *Unión Obrera Metalúrgica* (Metallurgical Union) had 287000 members, in 1988 it had 267000. The SMATA (*Sindicato de Mecánicos del Transporte Automotor*) had 87000 members in 1976, and in 1986, 54000. The union of textile workers decreased from 87000 in 1976 to 73500 members in 1986. Conversely, the union of food processing workers increased from 41000 members in 1976 to 148000 in 1986. The *Confederación de Empleados de Comercio* (Commerce Employees Confederation) also increased its membership from 279000 in 1978 to 407000 members in 1988. (Morales Solá, 1990, p. 290). It is important to highlight that the two unions in which membership increased belong to the tertiary sector.

The main conclusion is that the changing structure of the Argentinian economy created new conditions for the industrial labour market which were its *desasalarización*, *terciarización* and the *pauperización* (impoverishment) of the workers. These processes modified the social structure of the country by deepening

its inequalities. The industrial working class became both economically worse off, and politically weaker. Those who could, moved into the tertiary or the 'black market', but this was not sufficient to absorb all the movement away from the industrial sector.

#### *f. The external debt*

The international context in the mid seventies contributed to the accumulation of external debt. The quadrupling of the oil price in 1973 weakened the situation of non-oil producing developing countries. Together with an increase in their import expenditure, there was a decrease in their export earnings as a consequence of the recession in developed countries. By contrast, the OPEC countries (Oil Producing and Exporting Countries) experienced a massive increase in their current account surplus. They placed much of the so-called 'petrodollars' in US and British banks (Pilbeam, 1992, p. 407). The rise in inflation resulting from the oil shocks meant that real interest rates were very low or negative in the developed countries. The governments of developing countries were "keen to avoid having to adopt deflationary measures to control their current account deficits. Instead they sought to borrow funds to finance the deficits" (Pilbeam, 1992, p. 408). This led to a 'recycling' of the 'petrodollars' in the form of massive lending to the developing countries. Most of the loans were made with floating rates of interest based upon a margin over LIBOR (the London Inter-Bank Offered Rate). While the banks were protecting themselves, this left the developing countries such as Argentina exposed to the risk of a rise in world interest rates.

The external debt was one of the most serious consequences of the dictatorship in the sense that it will continue to severely constraint the future of the Argentinian economy. The accumulation of external debt can be divided in three periods of time: a) that of the initial expansion, 1976-1978 (16.6 per cent per year); b) a period



of explosive growth, 1979-1981 (41.9 per cent per year); and c) that of the compulsory accumulation of debt, 1982-1989 (7.6 per cent per year) (Bouzas and Keifman, 1990, p. 3).

The main feature of the Argentinian external debt is that in the first two periods the accumulation of debt was a result of commercial deficits caused by the overvaluation of the *peso*, commercial openness and capital flight (Bouzas and Keifman, 1990, p. 5). The mismanagement of the exchange rate combined with an opening of the capital account are key explanations for the massive debt accumulation (Dornbusch and De Pablo, 1988, p. 20). These were the consequences of the Martinez de Hoz's political economy, especially his financial reform and the opening up of commercial and capital markets.

From 1976 to 1982, the public debt increased 407.5 per cent, the private debt by 364.5 per cent, and the net debt by 479.5 per cent (Frenkel et al, 1988). However, as it was shown above, the time of the dictatorship was a period of economic stagnation, and the increase in the external debt does not mean an increase of investment funds for developing the Argentinian economy.

**Table nº 7**  
**External debt**  
(million current dollars)

	Public debt	Private debt	Gross debt	Net Debt*
1976	5189	3090	8279	6467
1977	6044	3634	9678	5639
1978	8357	4139	12496	6459
1979	9960	9074	19034	8554
1980	14459	12703	27162	19478
1981	20024	15647	35671	31794
1982	26341	14362	40703	37477

\*Net debt= gross debt - foreign currency reserves

Source: Frenkel et al (1988) *El proceso de endeudamiento externo argentino*, Documento CEDES/2 (Buenos Aires CEDES).

Despite the fact that in 1978 the balance of trade surplus was over 2.500 million dollars and the foreign currency reserves were over 6.000 million dollars, one year later an explosive growth of the debt commenced, mainly as a result of the anti-inflationary policy of December 1978. The so-called *tablita* was the prior announcement of a series of gradually declining mini-devaluations. By decreasing the rate of depreciation, the government tried to decrease inflation "by exposing domestic producers to international competition and thus reducing the peso price of tradeable" (Crystal, 1994, p. 137). The policy failed -partly due to the large budget deficit- and the result was an increasingly overvalued real exchange rate. The result was substantial capital flight "estimated at around US\$25 billion between 1978 and 1982" (Crystal, 1994, p. 137). This explained the overwhelming increase of the private debt.

From 1978 to 1979, the public debt increased 19 per cent while the private debt increased 119 per cent; from 1979 to 1980, the public debt rose by 45 per cent and the private debt by 40 per cent; and from 1980 to 1981, the public debt rose by 38 per cent and the private by 23 per cent. In 1978-1979, the private sector was the origin of the accumulation of debt while, afterwards, both private and public sector increases were around 30 and 40 per cent. On the other hand, the foreign currency reserves decreased 26 per cent from 1979 to 1980, and 49.5 per cent from 1980 to 1981 (Frenkel *et al.*, 1988, figure nº 5).

As said, the growth of private debt between 1978 and 1979 was not the result of new external credits, but rather the product of transactions made by Argentinians who had deposits abroad (Basualdo, 1987, p. 65). They brought their money back to Argentina and this transaction appears as a new credit. Capital flight during 1979-1981 -which amounted US\$ 16.2 billion- was around 23 per cent of Argentina's GDP (Fanelli and Frenkel, 1989, p. 11).



It is also important to look at the composition of the private sector which got into debt with foreign banks. Thirty GEN got into debt with foreign banks for a total of 7349 million dollars -34.5 per cent of total private debt-, and 106 transnational corporations amassed debt of 7238 million dollars -34 per cent of the total (Basualdo, 1987, p. 74). Therefore, the share of the economic corporations and the transnational corporations represented 68 per cent of total private debt, the rest belong to public and medium size companies and public companies.

The government promoted, until 1980, the accumulation of private external debt through the maintenance of a domestic interest rate higher than the international one. Due to the financial crisis of 1980, the private sector started to substitute domestic assets for foreign assets, and in order to maintain the devaluation rate fixed by the *tablita*, the government compensated the capital flight with a expansion of public debt. According to Frenkel *et al* (1988, p.12) this mechanism was the first step towards the nationalisation of the private debt: the government ran up debt acquiring foreign currency to sell it to the private sector at an undervalued dollar rate. Therefore, the private sector could cancel its external liabilities with a subsidised price.

The second step towards the nationalisation of the private debt was the guarantee of *seguros de cambio* (swaps) through which the government guaranteed a future exchange rate below the market value<sup>27</sup>. By November 1982, the Central Bank decided to take charge of the private debt due to the inability of the private sector to repay it. The Central Bank would replace the private debtor after the cancellation of the debt in *pesos*. In other words, the private debtor paid the Central Banks in *pesos* and the Bank had to pay it to the external creditor in dollars (Graziano, 1986, p. 46). The main official objective in nationalising the debt was to prevent a crisis not only in some national companies but also in the domestic financial system.

In 1980 the public debt grew significantly because the government had started to increase the foreign currency reserves which were required by the private sector. The increase in the international interest rate as a cause of the growth of public debt must also be taken into account (Schvarzer, 1986a, p. 419). It also seems probable -although difficult to confirm- that the expansion of public debt was linked to the purchase of arms. The military dictatorship was on the verge of a war against Chile in 1978, and finally was at war against the United Kingdom in 1982. Scholars<sup>28</sup> agree that a large amount of the public debt was created by the purchase of arms.

The consequences of the external debt became a crucial issue for Argentina's future. First of all, the 'owners' of the private debt transferred to society, by the nationalisation of the debt, their losses but not their profits. Due to this, as the debt became mainly public, the external crisis produced a fiscal one. Fanelli and Frenkel (1989, p. 19) explain that

"the core of this issue is that while the government has to pay the interest of the foreign debt, the private sector 'owns' the surplus of the trade account which provides the foreign exchange necessary for the payment on the interest due. In other words, the public sector must buy the external surplus from the private sector and the government must obtain the funds to do so by either reducing its expenditure or raising taxes. Both of these measures tend to depress the activity level and to restraint growth".

Therefore, the government is dependent upon the activity of the private sector to repay external credits. Secondly, the private external debt and its nationalisation implied a redistribution of income, in the sense of the 'socialisation' of losses while profits remained private. Finally, the external debt, combining redistribution of income with concentration of capital, rendered national



governments unable to control the domestic economy (Basualdo, 1987, p. 117). The international creditors -commercial banks, international organisations of credit and foreign governments- played, henceforth, a crucial role in the decision making process of the Argentinian economy.

The external debt was another tool for the restructuring of the state. Through the debt the international creditors increased their leverage over the debtor countries. The International Monetary Fund (IMF) became the 'international regulator of debt' (Cole *et al*, 1991, p. 259) and the International Bank for Reconstruction and Development (the World Bank) became more concerned with long-term structural adjustment (Cole *et al*, 1991, p. 260). Both promoted 'monetarism' as the means to achieve internal price stability and a balance on the external account. Debt repayment was the 'cost' paid to tie Argentina's economy into the international system. Its consequence was that the restructuring of the state and of class relations begun by the 1976 military dictatorship could not be reversed by the incoming democratic government without undermining democracy.

## **II. The collapse of the dictatorship: from Viola to Malvinas**

The results of the Martínez de Hoz's economic policy were that between 1980 and 1981 the rate of the GDP went from 0.7 to -6.2, per capita GDP from -0.9 to -7.7, and gross national income from 1.8 to -7.0. The external debt increased from US\$ 27.162 million in 1980 to US\$ 35.671 in 1981 (United Nations, 1985, p. 76). All these modifications were concentrated in one year as a result of the economic policy applied in the previous four years. The implementation of Martínez de Hoz's economic policy weakened the already vulnerable Argentinian economy.

As had been planned, Lt. General Videla and his Ministers left the government in March 1981 when Lt. General Roberto Viola, Commander-in -Chief of the Army, took office. The new military administration abandoned the trade liberalisation programme. The new programme consisted of stabilising the *peso*, achieving a surplus in foreign trade, promoting a larger market for national products, changing internal relative prices in favour of producers of tradeable goods, favouring employment over real wages, keeping the financial system open with state, foreign and private national banks appropriately balanced, encouraging private participation in the public investment programmes, and making both fiscal expenditure and the public deficit, as well as Central Bank credit, consistent with monetary policy, in order to effectively fight inflation (Di Tella and Rodríguez Braun, 1990, p. 188).

As soon as the new Minister of Economy, Lorenzo Sigaut, took office, the demand for dollars increased. In just one day the Central Bank lost US\$ 300 million (Schvarzer, 1986a, p. 120). On the 2nd of June the economic team devaluated the *peso* by 30 per cent. On the 22nd of June a double exchange market was created: the financial or free market and the commercial one (Di Tella and Dornbusch, 1989, p. 298). The former exchange rate was 30 per cent higher than the latter representing another 30 per cent devaluation. The "discrepancy between the commercial and financial rate widened over time from 30 per cent to 60 per cent, reflecting a growing imbalance between the attempt to avoid the inflationary impact of depreciation and the need to check capital flight by a rapid depreciation of the financial rate" (Di Tella and Dornbusch, 1989, p. 298).

Another measure was a new export tax of 12 per cent in agricultural products. On the other hand, the industrial sector could maintain its benefit which was a subsidy for manufactured goods of 25 per cent. Dornbusch (Di Tella and Dornbusch, 1989, p. 298) describes this short period as follows: "inflation had been artificially lowered by the exchange rate policy, but this had been achieved at



the cost of building up an external lack of competitiveness as well as a large external debt. Sigaut therefore had to restore competitiveness and could not avoid some increase in inflation".

Under Viola's government, in July of 1981, there was a second national strike called by the banned CGT -once again the leaders were imprisoned- against the military dictatorship. This enjoyed total adherence in both the industrial and tertiary sectors. In November 1981, there was a protest march against the dictatorship with the slogan 'Bread, Peace and Jobs' (Smith, 1989, p. 240).

In December 1981 a palace coup against Lt. General Roberto Viola showed the internal problems of the Armed Forces and "represented a regrouping of various right-wing military sectors in a new complex realignment with the economic and financial interests associated with the Martínez de Hoz group" (Smith, 1989, p. 244). Many reasons have been provided to explain this *coup d'etat* within the military dictatorship. On the one hand, Lt. General Viola radically changed the economic policy. While Martínez de Hoz's team had represented the objectives of the economic establishment, Lt. General Viola's Minister of Economy did not. On the contrary, as explained above, his economic plan changed radically the rules of the economy. Although there were some groups against Martínez de Hoz's economic policies<sup>29</sup>, the liberals, supporters of Martínez de Hoz, became more powerful within the Army through the promotion, by the end of 1981, of old Generals. Therefore, when Lt. General Viola was removed, the new President choose as his Minister of Economy a man of the economic 'establishment', Roberto Alemann.

Another cause of Lt. General Viola's forced retirement was that he started a political dialogue with the main political parties and appointed seven civilian ministers in a Cabinet of thirteen ministers (Smith, 1989, p. 242). Moreover, during his short presidential period the *Multipartidaria* (an organisation joined by the main political parties) was created by the Peronist Party, the Radical Party, the

*Movimiento para la Integración y Desarrollo* (Movement for the Integration and Development), the Christian Democrats, and the *Partido Intransigente* (Intransigent Party) (Fontana and Llenderrozas, 1992, p. 167). By this time, the *Junta* publicly warned Lt. General Viola that political dialogue was premature (Fontana and Llenderrozas, 1992, p. 167). While, Lt. General Viola believed that the democratic transition had to be started this was not an opinion shared by the Armed Forces.

The change of men in the House of Government was not just a change of names. After the coup against Lt. General Viola, Lt. General Galtieri -Commander in Chief of the Army- as the new President attempted to return to the origins of the *Proceso*, both economically and politically. By the end of 1981 GNP fell a record of 11.4 per cent; "industrial production declined by nearly 23 per cent and real wages declined almost 20 per cent" (Smith, 1989, p. 244). Therefore, Lt. General Galtieri's Minister of Economy, Roberto Alemann, had to cope with a profound crisis. He emphasised deflation, deregulation and denationalisation. Alemann's plan was based on "freezing state employees' wages (responsible for approximately 50 per cent of government expenditure), raising taxes, and hiking public sector prices" (Smith, 1989, p. 245). The objectives of the plan were a "drastic compression of domestic demand and radical cuts in public spending to reduce inflation and further open the economy to the international market" (Smith, 1989, p. 245). Another wage freezing, this time only for state employees, suggested that the new military government wanted to deepen the restructuring of the state started by Videla and Martínez de Hoz.

A second protest march was held at the 30th of March 1982, again under the slogan 'Peace, Bread and Jobs'. Three days later the Malvinas adventure started as the last attempt of the dictatorship to maintain control of the government. The defeat in the Malvinas signalled the beginning of the end of the dictatorship. Because of the war the economic situation radically changed. For instance, Smith (1989, p. 246) points



out that "in April 1982 alone, the equivalent of more than \$500 million was withdrawn, generally to buy dollars in neighbouring Montevideo".

The defeat in the Malvinas was also a defeat for the Armed Forces as a government. Lt. General Galtieri resigned and Lt. General Reynaldo Bignone was the president of the last period of the dictatorship. The transition to democracy began as a result of the Malvinas defeat.

### **III. The transition to democracy: a consequence of the Malvinas defeat**

The defeat in the Malvinas<sup>30</sup> was the beginning of the end for the military dictatorship. The transition to democracy was, in Argentina, the result of the collapse of the *Proceso*. Unable to overcome the economic crisis, to quash the guerrilla through the power of the state apparatus or to win an external war, the government of the Armed Forces collapsed. The breakdown of the authoritarian regime was a consequence of its own contradictions and failures.

The Malvinas defeat represented the final blow to the authoritarian regime and marked the beginning of the transition to democracy. However, the disintegration of the *Proceso* began with the failure of Martínez de Hoz' plan to bring down inflation, reduce the fiscal deficit and overcome economic stagnation. Viola's attempt to change the economic strategy and start a process of political 'liberalisation' revealed the absence of consensus within the regime. Viola's effort was in turn interrupted by the Armed Forces' 'coup within a coup'. Galtieri's presidency tried to reimpose a freezing of political activity and to ally the government once again with the 'economic establishment', appointing Roberto Alemann as Minister of Economy. It

was in the midst of these efforts that Lt. General Galtieri began the Malvinas campaign.

During the *Proceso*, the Armed Forces' alliance with the upper bourgeoisie was undermined. It was weakened initially during Viola's presidency because of the shifts in economic policy and the evident failure of the Martínez de Hoz plan. The Malvinas campaign served to undermine the alliance even further. Rouquié (1983b, p. 582) argues that the foreign policy of the military dictatorship became incoherent and that "one can understand that the Argentine conservatives should be disoriented, even alarmed, by the statements of Sr. Costa Méndez at the non-aligned meeting of 9th June 1982 according to which 'the struggle for the Falklands is similar to the liberation struggles of Algeria, India, Cuba, Vietnam and the Palestinian people'. The Malvinas war provoked the economic and political isolation of Argentina which was not welcomed by the upper bourgeoisie. It also highlighted that a military dictatorship is much more unpredictable than any democratic government. The same government which was helping the United States' struggle against 'communism' in Central America, sought support for its Malvinas campaign from the non-aligned movement. Therefore, another cause of the *Proceso*'s collapse was the breakdown of the social alliance which had supported it.

In conclusion, a combination of four factors provoked the collapse of the authoritarian regime: first, the failure of the efforts to overcome the economic crisis; second, the contradictions within the Armed Forces; third, these two factors provoked the weakening of the alliance with the upper bourgeoisie; fourthly, the defeat in the Malvinas war. By the time the transition to democracy had begun, the Armed Forces were in danger of internal fragmentation<sup>31</sup>. The collapse of the authoritarian regime and the internal crisis of the Armed Forces made the transition to democracy quite distinctive. Let me now turn to the process of transition itself.



*i. The transition process*

After the military defeat Lt. General Galtieri resigned (Clarín, 18-6-1982, p. 3) and the Commander-in-Chief of the Army, Lt. General Nicolaides appointed Lt. General Bignone as President (Clarín, 23-6-1982, p. 3). This provoked the Navy and Air Force to leave the *Junta Militar* since Nicolaides had not respected the *de facto* provision of the *Proceso* referring to the *Junta* 's responsibility to appoint the President. Therefore, the Army assumed total responsibility for government. On the 1st July 1982, Lt. General Bignone took office and lifted the ban on political activity (Clarín, 1-7-1982, p. 2). Bignone's main objective was to conduct the transition to democracy.

Despite the lift of the ban on political activity, at the very beginning of the transition process the *Multipartidaria* was quite cautious and did not seek to provoke social mobilisation. In fact the role of the *Multipartidaria* as the opposition against the military dictatorship was undermined by its support for the Malvinas war. Indeed, the war had provoked a split within the *Multipartidaria*, some politicians enthusiastically supporting the campaign, others -most notably, Raúl Alfonsín- withholding such support.

Nevertheless, the last months of 1982 can be considered as a turning-point in the transition process. Firstly, human rights organisations<sup>32</sup> organised a public demonstration, to exert pressure for investigations into human rights violations committed under the military government (Clarín, 6-10-1982, p. 2). Secondly, the Commanders-in-Chief of the Navy and the Air Forces decided to reconstitute the *Junta Militar* (Clarín, 11-9-1982, p. 3).

In October the *Junta* and the President tried to negotiate some conditions to achieve an 'agreed transition' (*transición concertada*). A list of issues, from human rights violations to the role of the Armed Forces in the democratic government, was

published before being discussed with the political parties. As a consequence of this, the *Multipartidaria* rejected the possibility of a *concertación* or agreement (Clarín, 6-12-1982, p. 2). The breakdown of the *concertación* unleashed a general strike and a popular demonstration for a quick return to democracy, called for, by the *Multipartidaria* (Clarín, 16-12-1982, p. 2).

It was, by then, clear that the military government could no longer control the transition process. In February 1983, President Lt. General Bignone announced that elections would be held on 30th October and a civilian government would take office on January 1984 (Clarín, 10-2-1983, p. 2). The political parties started to be preoccupied with establishing their leadership teams. The Armed Forces became worried about the past.

Indeed, in April 1983, the Armed Forces published a 'final' document on the struggle against the guerrillas. The document emphasised that the struggle against guerrillas had been ordered by the constitutional government of María Estela Martínez de Perón. The document was followed by an 'Institutional Act' (*Acta Institucional*) "declaring that all military actions during the campaign were carried out 'in the line of duty' on orders from the military high command" (Latin American Weekly Report, 6-5-1983, p. 10). The document and the act were rejected by all the political parties. Nevertheless, the Armed Forces attempted a final defensive move: a legal framework to avoid the investigation of the human rights violations. On the 23rd of September a law was passed establishing an amnesty for the perpetrators of subversive activities and 'excesses' of repression from the 25th May 1973 to the 17th June 1982 (Clarín, 24-9-1983, p. 2). The law was rejected by all the political parties, although Italo Luder, leader of the Peronist Party, was somewhat ambiguous regarding whether or not he would reverse the law (Clarín, 24-9-1983, p. 2-3).



From July 1982 to December 1983, the most important decision, in the economic sphere, was, as explained above, Cavallo's policy. As the President of the Central Bank, he applied "a drastic financial reform that in only six months resulted in the liquidation of about 40 per cent of the private sector's debt" (Smith, 1989, p. 257). In July 1982 for the first time Argentina had difficulties with its international obligations and the economic authorities admitted the need to renegotiate the external debt with the International Monetary Fund.

The last years of the dictatorship can be summarised as follows: 1981 was the year of the devaluation and *seguros de cambio* (swaps) -as the first step of the nationalisation of the private debt- to cope with the commercial and current account deficits as well as with capital flight. 1982 was the year of the liquidation of private liabilities. Finally, 1983 was the year of wage increases due to pressures from trade unions which took advantage of the weakness of the dictatorship (Frenkel *et al*, 1988, p. 7). Stagnation, high inflation, impoverishment and external debt were the legacy of the *Proceso*.

The transition to democracy was an unstable period. Neither the Armed Forces nor the political parties could control or lead the process of transition. For eighteen months the transition to democracy was precarious. A new military coup could not be discounted. The competitive electoral campaign revealed an absence of a consensual approach amongst the political parties towards democracy. And, lastly, an increasing number of accusations, both from inside and outside the country, of human rights violations against the government of the Armed Forces also increased tensions.

#### IV. The 1983 elections

The 1983 elections were held on the 30th of October. The Radical Party won 51.75 per cent of the total vote cast and the Peronist Party, 40.16 per cent. The remainder of the vote was divided between an assortment of small parties (Clarín, 1-11-1983, p. 2-3)<sup>33</sup>. In the provinces, Peronism won 12 of the 22 governorships representing 21 of the 56 senators' seats at the National Congress. The Radical Party obtained a majority in the Chamber of Deputies, 129 compared with 111 for Peronism (Clarín, 1-11-1983, p. 2-10).

Since 1946 the Peronist Party -whenever there were genuinely free elections- had obtained a majority while the Radicals had obtained between 25 and 30 per cent of the total vote. In 1983 there were many factors which militated against a Peronist victory. First, the absence of a leader able to replace Perón. Second, the degree of influence and power of the trade unionists in the decisions of the Peronist Party brought memories of Perón's widow's government, which ended in a military coup. Thirdly, the aggressive electoral campaign which ended in the burning of an effigy of Raúl Alfonsín. Finally, the ambiguity of Dr. Italo Luder's<sup>34</sup> attitude towards the human rights violations.

Thus, the strong presence of the trade unions brought memories of Isabel's presidency and its chaos and violence<sup>35</sup>. The aggressive electoral campaign terrified a society which wanted to end a violent period in its history. Dr. Luder was unable to convince the electorate that he would be able to control either the factions within the Party or the trade unions. Nor could he convince the electorate that he genuinely sought to bring human rights violators to trial.

Alfonsín's<sup>36</sup> campaign emphasised democratic and pacifist values. He stated categorically that a Radical Party government would convict the perpetrators of human rights violations. Eight months before the elections Alfonsín denounced a pact



between some officials from the Armed Forces and a number of trade unionists. The denounced pact apparently stated that a Peronist government would not investigate the violations of human rights under State Terrorism, would maintain the hierarchy of the Armed Forces, would not impose a reorganisation of the Armed Forces or reduce their budget, and would not pursue charges of corruption which had occurred under the military government. In return, control of the trade unions and *Obras Sociales* (Health Service Funds) would pass directly to their existing leaders without need for either a new law or internal elections (Gaudio et al., 1990, p. 17). Although the existence of the pact was never substantiated, Alfonsín's announcement was nevertheless a key factor in his electoral victory. Indeed, although Alfonsín was accused of 'socialist' tendencies by some politicians from the Peronist Party, the moderate-right electorate voted overwhelmingly for Alfonsín. In the last days of the electoral campaign individuals supporting centre-right parties shifted their vote to Alfonsín (Mora y Araujo, 1986). Alfonsín's denouncement of the pact, together with the high profile of trade unionists in the Peronist camp and the violent campaign tactics of some Peronist politicians, contributed to Alfonsín's victory. The Radical leader emphasised the democratic values of the Radical Party and showed himself as Argentina's most democratic politician. In contrast, Peronism was presented as promoting exactly the things Argentinian society had had enough of: violence and disorganisation.

At the 10th of December 1983, Alfonsín took office and a new democratic process began. Before turning to analyse the democratic period, let me conclude by outlining the main consequences of the 1976 military dictatorship which, I suggest, constrained the democratic government.

## V. Conclusion

As the main threat to the maintenance of the capitalist order came from the armed urban guerrillas, the primary objective of the Armed Forces was to banish the guerrilla activity. Through the implementation of State Terrorism the armed urban guerrillas literally 'disappeared'.

The subordination of the working class in both the economic and the political sphere was achieved through the applied structural reform. Due to the dismantling of the industrial sector and the transfer of workers to the tertiary sector and the 'black market', the trade unions lost members and power. Historically, the tertiary sector has not had strong trade unions. Likewise, the redistribution of income meant a defeat for the working class in the conflict over wealth distribution. From tables nº 2 and nº 3 can be deduced that while the price of a good was 100 pesos in 1976 and by 1981 was 7276 pesos, the real wage of an industrial workers was 100 in 1976 and 114.2 in 1981. The process of impoverishment was overwhelming.

The dictatorship succeeded in its long-term objective of *disciplinamiento social*, but failed to stabilise the economy. Despite the stagnation of the economy, the national agro-industrial corporations connected to the international financial circles increased their profit. They found the path to growth through the financial market and speculation, the purchase of small and medium size companies which had gone bankrupt, the increase of their external debt, the diversification of their activity - from industry to finance, and even within the industrial sector from petrol to fisheries-, and peripheral privatisation. They grew under the protection of the state. The analysis of the policy of industrial promotion shows that the GEN were the beneficiaries of this process (Azpiazu and Kosacoff, 1989). The nationalisation of the private debt was also an important assistance from the state to the GEN. Most directly the state was the main purchaser of the production of some of the GEN<sup>37</sup>.



The dictatorship could not, however, prevent rising inflation, instability and stagnation, and was unable to successfully stabilise the economy. The growth of the GEN was the result of the promotion of some factions of the industrial bourgeoisie at the expense of others factions -mainly the small and medium size companies. The high concentration of capital in these GEN was a new feature of Argentinian social relations. Another feature was the *desasalarización*, *terciarización* and the *pauperización* of the workers.

Argentina's 'new economy' could not easily be changed after the dictatorship because, despite the process of democratisation, in practice Argentina's international creditors and the transnationalised faction of the national bourgeoisie remained influential. In this sense, the military dictatorship had achieved a limited objective. To what extent the military dictatorship achieved its substantive objectives will be analysed in the next chapters because the achievement of these aims meant that the *disciplinamiento social* would last longer than the dictatorship itself. Nevertheless, some arguments can be considered here based on constraints created by the military government.

The first factor which would restrict the action of the next government was the external debt. As explained above, the external debt became a fiscal problem since the government had to service an increasing interest payments. As Fanelli and Frenkel (1989, p.19) point out the essential part of this issue is that the private sector socialised its losses but still "'owned' the surplus of trade account which provides the foreign exchange necessary for the payments on the interest due". Therefore, the public sector had to buy the external surplus from the private sector and the government had to obtain the funds to do so either by reducing its expenditures or raising taxes. Both of these measure tended to depress the activity level and to restrain growth (Fanelli and Frenkel, 1989, p. 19).

The second factor which would limit the room for manoeuvre of the democratic government was the concentration of capital. The GEN expanded in a regime of high inflation and a context of economic stagnation. The growth of the GEN was connected with relative prices because they operate in oligopolistic markets with high inflation which gives them the capacity to set prices above the average for the economy (Basualdo, 1987, p. 50). Likewise, due to the financial overvaluation of the surplus and their insertion in international and national financial markets, the GEN obtained more benefits than other companies. Therefore, they were both influential, through the determination of prices, and independent, through their powerful place in financial markets. Likewise, their power of speculation constrained the decision making power of the incoming government.

An impoverished working class would also be a constraint on the margin of manoeuvre of the democratic government. After seven years of dictatorship with social and political repression, the working class expected social, economic and political compensation. Nevertheless, due to the mentioned constraints and the economic legacy of the dictatorship, the democratic government had to heed the requirements of the IMF adjustment plan, and balance them with the demands of the working class.

Alfonsín's new government found itself severely constrained, then, by the legacy of the *Proceso*. Juan Alemann, a member of the Martínez de Hoz's team, said that the changes in the economic situation would restrain the action of the new democratic government and that the latter would therefore fail (Schvarzer, 1986a, p. 227). As Smith (1985, p. 74) points out "the project's architects hoped to make it impossible for any future civilian or military regime to embark on dangerous '*retorno al pasado*' (return to the past) in terms of social and economic policies". The method to achieve that objective was the redistribution of social power in Argentine society "particularly the destruction of the economic bases which in the



past had made possible the cyclical re-emergence of defensive alliances between organised labour and the subordinate factions of capital" (Smith, 1985, p. 74)<sup>38</sup>.

The democratic government found itself trapped between the conflicting pressures of its international creditors, demanding re-payment of the debt, of the bourgeoisie, demanding the protection of its interests, and of the working class, demanding economic compensation after seven years of impotence. Likewise, the democratic government had to deal with the social demand that human rights violators be brought to trial -which obliged it to confront the Armed Forces.

The military dictatorship did not resolve the crisis of the Argentinian state. It did, however, lay the foundations of the restructuring of the state and of class relations. The incoming democratic government had work on these 'foundations'. Let me now turn to analyse the democratic government's policies towards this legacy.

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<sup>1</sup> My emphasis.

<sup>2</sup> As O'Donnell (1988, p. 90) points out economic normalisation has two dimensions: "the first involves the restitution of the economic supremacy of the oligopolised and transnationalised units in such a way that they regain heavy influence over the performance of the economy's main variables. The second dimension of normalisation consists of the restoration of close links between the local economy and the world capitalist system, in ways that involve, in contrast to the pre-Bureaucratic Authoritarian period, capital movements away from as well as toward the capitalist centres".

<sup>3</sup> Later the *Junta* renewed his designation until March 1981.

<sup>4</sup> Martínez de Hoz is a man from the 'economic establishment' who had occupied crucial places such as the Presidency of the *Consejo Empresario Argentino* (Argentinian Business Board) and of *Acindar*, a steel-company.

<sup>5</sup> As explained above, the Argentinian Anti-Communist Alliance -Triple A- was a paramilitary group formed by José López Rega, Isabel Perón's Minister of Social Welfare.

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<sup>6</sup> For a detailed account of the dirty war and its consequences see Bonasso (1984), Argentina's National Commission on Disappeared People (1986), and Andersen (1993).

<sup>7</sup> Regarding the international economic support to the new military government and to its economic policy, after one week of the *coup d'etat*, the IMF approved a credit of US\$ 110 millions of Special Drawing Rights (SDR). In August 1976, the IMF approved another credit of US\$ 260 millions of SDR (Schvarzer, 1986a, p. 46).

<sup>8</sup> Law 21382 of August 1976 concerning foreign investment stated that all areas of economic activity were open to foreign investment, and guaranteed the settlement of profits and the repatriation of capital even in case of the implementation of an exchange-rate control (Minsburg, 1987, p. 85). This law also established equality between foreign and national investment and accepted the juridical independence of the transnational companies with respect to their head offices. Between 1976 and 1983 foreign investment was guided to petrol and financial sectors. Basic references are Minsburg (1987), Azpiazu and Kosacoff (1989), and Sourrouille *et al.* (1985).

<sup>9</sup> Calculated from tables 2 and 3.

<sup>10</sup> This was a variety of work-to-rule developed to circumvent the anti-strike legislation (Abós, 1984, p. 10).

<sup>11</sup> Canitrot (1981, p.143) explains that, as a consequence of the financial reform, the nationalised deposits system ended; therefore, the banks recovered a main role in the financial system. For more details see also Frenkel (1980).

<sup>12</sup> *Desindexación* means a restriction to the mechanism of increasing prices due to the past inflation rate.

<sup>13</sup> Argentinian Central Bank (*Banco Central de la República Argentina*), unpublished data.

<sup>14</sup> See Obschatko (1988).

<sup>15</sup> See Azpiazu and Kosacoff (1989), Schvarzer (1986a) and (1983), Canitrot (1981) and Katz and Kosacoff (1989).



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<sup>16</sup> See Torre (1988) (1989) and Godio (1989).

<sup>17</sup> Law 21608 concerning promotion of the industrial sector gave the right of the promotion to national as well as international companies (Schvarzer, 1986a, p. 189).

<sup>18</sup> The public investment during the 1960s and the beginning of the 1970s was between 7.5 per cent and 8.5 per cent of the GDP; between 1976 and 1980 was 11.7 per cent of the GDP. The energy sector was the most relevant with a share of 50 per cent of the total of the public investment between 1976 and 1980 (Comisión Económica para América Latina y el Caribe -CEPAL-, 1990, p. 29).

<sup>19</sup> This promotion started in the 1960s with the proposal of increasing industrial exports. This policy tried to take advantage of the development that the industry had achieved through the Import Substitution Industrialisation -ISI-. Due to this promotion, while in the beginning of the 1960s the manufacturing sector did not export, in the 1970s its exports were over US\$1000 millions which represented 25 per cent of total exports (Azpiazu and Kosacoff, 1989, p. 101).

<sup>20</sup> Most notably General Motors, Citroën and Chrysler which was bought out by Volkswagenwerk A.K (Sourrouille *et al.*, 1985, p. 159).

<sup>21</sup> Basualdo and Azpiazu (1990) made an excellent analysis of the impact of the industrial promotion applied by the military dictatorship in the process of concentration and centralisation of capital.

<sup>22</sup> For more details in the development of the GEN and the 'diversified' transnational companies under the military dictatorship see Basualdo (1987), Azpiazu *et al* (1986), Acevedo *et al* (1990) and Basualdo and Azpiazu (1990).

<sup>23</sup> I return to this policy below.

<sup>24</sup> For more details see Ostiguy (1990).

<sup>25</sup> Measured at 1976 levels, 1974 average wages were US\$ 217, falling to US\$ 109 in 1978 (Villareal, 1985, p. 249).

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<sup>26</sup> Although the author does not explain how poverty is defined, through his comments could be assume that poverty is defined as the impossibility of satisfying basic needs such as house, drinking water, electricity, education and health service.

<sup>27</sup> For more details in the mechanism of the nationalisation of the private external debt see Graziano (1986) and Basualdo (1987).

<sup>28</sup> See Basualdo (1987), Frenkel *et al* (1988), and Bouzas and Keifman (1990).

<sup>29</sup> Particularly the Navy whose Commander-in-Chief, Admiral E. Massera was publicly against it.

<sup>30</sup> Basic references on the Malvinas conflict are Boron and Faúndez (1989), Cardoso *et al* (1987), Gamba (1987), and Freedman and Gamba-Stonehouse (1990).

<sup>31</sup> Fontana (1984), (1986) points out that the crisis of the Armed Forces was within themselves as well as within each of the Forces, specially within and with the Army which was viewed as the most compromised in the implementation of State Terrorism and the most responsible for the defeat in Malvinas.

<sup>32</sup> These were specially: *Madres de Plaza de Mayo* (Mothers of May's Square), *Asamblea Permanente por los Derechos Humanos* (Permanent Assembly for Human Rights), and *Centro de Estudios Legales y Sociales* (Centre of Legal and Social Studies).

<sup>33</sup> These were mainly: Intransigent Party (left-wing) (*Partido Intransigente*), Movement of Integration and Development (moderate-right) (*Movimiento de Integración y Desarrollo*), Federal Alliance (right-wing) (*Alianza Federal*), Democratic Centre Union (right-wing) (*Unión del Centro Democrático*), Christian Democrats (moderate-right) (*Demócratas Cristianos*), Democratic Socialism Alliance (moderate-left) (*Alianza Demócrata Socialista*) and Movement towards Socialism (left-wing) (*Movimiento al Socialismo*).

<sup>34</sup> Dr. Luder had been stand-in President (*Presidente Provisional*) when María Estela Martínez de Perón was ill.



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<sup>35</sup> An excellent study of the role of trade unionists in the last Peronist government is Torre (1989).

<sup>36</sup> Dr. Raúl Alfonsín was the leader of the Renovation and Change Movement (*Movimiento de Renovación y Cambio*) within the Radical Party. This fraction was formed in 1972 and in 1983 won the internal elections against National Line (*Línea Nacional*). For more details see Wynia (1992).

<sup>37</sup> Fanelli and Frenkel (1989, p. 27) state that "the state is the most important client of 20 of the 100 leading firms of the economy (ranked by sales)".

<sup>38</sup> For more detailed on this alliance see O'Donnell (1978).

## Chapter 4

### 1983-1985, a failed attempt to resolve the crisis

#### Introduction

The main political objective of Alfonsín's government was the consolidation of democracy (Alfonsín, 1992, p. 49). In this sense, the Radical government was, at the very beginning, much more aware of the political aspects of the Argentinian crisis than of the economic ones. Alfonsín believed that, in order to consolidate democracy, his government had to 'democratise' the unions and the Armed Forces. By 'democratise' Alfonsín meant the incorporation of both these actors into the democratic system (Alfonsín, 1992, p. 19). He believed that both the unions and the Armed Forces were deeply authoritarian. While, in the case of the Armed Forces, this assumption was correct, in respect of the unions it was very simplistic. As said, during the military dictatorships, the unions were divided into a combative faction and a more conciliatory one. Behind Alfonsín's objective of 'democratising' the unions, there was the objective to '*desperonizar*' the unions, that is to breakdown the traditionally powerful role of Peronist trade unionists within the union movement. There was, also, the objective of controlling the disruptive power of the unions. The unions were viewed as a vehicle of social unrest which could provoke a military coup. The Radical government, by 'democratising' the unions, wanted to restrain and ultimately defuse their political power.

Alfonsín tried also to restrain the political influence of the Armed Forces. Throughout his period in office, he tried to prevent an alliance between the Armed Forces and the unions which might threaten democracy. The assumption that such an alliance could threaten social stability was based on the history of military coups in Argentina. Most notably, Alfonsín tried to avoid a new breakdown of democracy like



that which occurred in Illia's presidency, which was perceived to have been provoked by the social unrest unleashed by the unions (Alfonsín, 1992, p. 16). The analysis I will present of the first two years of Alfonsín's mandate shows a failed attempt to control the unions and to implement Alfonsín's human rights violations policies.

Economically, the 1983-1985 period is important for the negotiations regarding the external debt. During this period the government initially resisted, but then agreed to sign, the first 'letter of intent' with the IMF. In February 1984, the Economics Minister, Bernardo Grinspun, declared that "we are not negotiating a stand-by (with the IMF) and we will not accept any recessive formula" (Latin America Weekly Report, 17-2-1984, p. 8). Seven months later Grinspun affirmed that an agreement with the IMF would be necessary (Clarín, 3-9-1984, p. 1). This chapter seeks to explain this u-turn.

The chapter is divided into four sections. The first section analyses Alfonsín's policies towards human rights violations. It highlights the reasons why Alfonsín's objectives failed, and the consequences of this failure for the rest of his Presidency. The second section analyses Alfonsín's first attempts to control and to politically demobilise the trade unions. It shows the power of the trade unions in blocking and modifying state policies. This indicates that the political demobilisation achieved by the military dictatorship was only temporary. The third section analyses the domestic economic strategy and the negotiations surrounding the external debt. It begins by analysing the consequences of the external debt crisis for Latin American countries and, specifically, for Argentina. As one of its main economic problems was the existence of high inflation, I briefly analyse the political side of the inflation phenomenon. The section also studies the gradual change of Alfonsín's policies due to the failure of the first economic strategy to prevent high inflation, and of the negotiations for the payment of the external debt to avoid an IMF plan. Due to these failures the Radical government was unable to resolve the crisis of the Argentinian

state. The last section concludes by suggesting reasons why the government's strategies failed to resolve the crisis.

## I. Coping with the consequences of State Terrorism

### *i. The Radical government's objectives*

One of the worst consequences of the military dictatorship was the *desaparecidos*. Human rights organisations calculated that 30000 people disappeared due to the implementation of State Terrorism. These organisations, most notably the *Madres de Plaza de Mayo*, demanded *Aparición con Vida y Castigo a los Culpables* (literally, Appearance Alive and Punishment of the Guilty). While the first demand was, obviously, impossible to satisfy; the second was almost unavoidable. Indeed, nationally, the pressure for the punishment for human rights violators was very great (Fontana and Llenderrozas, 1992).

During the first two years of his government Alfonsín attempted to undermine the political power of the Armed Forces, to democratise their internal structures, and to set in motion the process of bringing the military to trial for human rights violations.

To weaken the political power of the Armed Forces, the government applied budget cuts, reduced the number of conscripts<sup>1</sup>, proposed the transfer of some institutes and corps from Buenos Aires to the provinces, and modified the role of the Armed Forces in the internal matters of the State. Military spending was cut back from 5.98 per cent of GDP in 1983 to 3.71 per cent in 1984 (Latin America Weekly Report, 17-8-1984, p.10). "Defence expenditures plummeted by 40 per cent between 1983 and 1986 (...) Although the deepest cuts were made in operations



(42 per cent) and equipment (50 per cent) army salaries fell 25 per cent between December 1983 and October 1984 alone" (Pion-Berlin, 1991, p. 552). Alfonsín's Minister of Defence, Raúl Borrás, announced that no funds would be made available for development projects in the military sphere with the exception of those linked to the production of arms for export (Latin America Weekly Report, 17-8-1984, p.10). The *Prefectura Naval Argentina* (Coast Guard Agency) and the *Gendarmería Nacional* (Frontier Police Corps), which were dependent on the Navy and the Army respectively, were transferred to the jurisdiction of the Ministry of Defence. Finally, around 100 military officials were released from the Intelligence Service (Latin American Regional Reports Southern Cone, 16-11-1984, p. 5). For his second objective, the democratisation of the Armed Forces, Alfonsín tried to apply a different syllabus of studies at their main institutes introducing courses taught by civilians on the role of the Armed Forces in a democracy (Fontana, 1989, p. 17, and Huntington, 1993, p. 245).

Alfonsín's policies to set in motion the process of bringing the military to trial for human rights violations was the focus of his relationship with the Armed Forces.

During the electoral campaign, Alfonsín had explained his proposal to deal with the human rights violations. He emphasised the concept of 'due obedience' based on three different levels of responsibility on human rights violations (Alfonsín, 1992, p. 108). He had defined that the degree of punishment was to vary between those who had been responsible for the planning and supervision of the repression, those who had committed 'excesses' during the repression, and those who had simply obeyed orders from their superiors (Alfonsín, 1992, p. 108). This was the main framework for Alfonsín's policies towards the Armed Forces. This framework was known as the 'due obedience' proposal.

According to the 'due obedience' proposal, Alfonsín's main objectives were to prosecute and to punish the highest members of the Armed Forces, specifically the three *Juntas Militares* which governed the country between 1976 and 1983, and to forgive those members of the Armed Forces who had obeyed orders from their superiors. In order to achieve these objectives, Alfonsín reformed the Military Justice Code. He attempted to give the Armed Forces the opportunity for a 'self-cleansing', assuring them a 'political decision' -the 'due obedience' proposal- to forgive the thousands of officials who had committed aberrant acts (Fontana, 1987, p. 387). Alfonsín did not attempt to punish all those who had participated in the implementation of State Terrorism, rather he intended to prevent the repetition of such State Terrorism by showing that anyone, including the holders of the highest office, can be judged (Alfonsín, 1992, p. 69). However, his objectives would be obstructed by pressure from human rights organisations, public opinion, and the Judiciary for the punishment of all members of the Armed Forces who were involved in the implementation of State Terrorism.

*ii. From the opportunity of 'self-cleansing' to the public judgement of the Juntas*

Three days after taking office, Alfonsín sent to Congress his proposal to abolish the self-amnesty law sanctioned by the military dictatorship (Clarín, 14-12-1983, p. 1). As explained above, this law established an amnesty for the perpetrators of subversive activities and 'excesses' of repression from the 25th May 1973 to the 17th June 1982 (Clarín, 24-9-1983, p. 2). Alfonsín's proposal to abolish this law meant that human rights violations and subversive activities carried out under the 1976 military dictatorship could be investigated by the Judiciary. In addition to this, he ordered judgements to be made on Mario Firmenich, Fernando Vaca Narvaja, Ricardo Obregón Cano, Rodolfo Galimberti, Roberto Perdía, Hector



Pardo and Enrique Gorriarán Merlo -all of them members of the armed urban guerrilla-, and of Lt. General Jorge Videla, Admiral Emilio Massera, Brigadier Ramón Agosti, Lt. General Roberto Viola, Admiral Armando Lambruschini, Brigadier Omar Graffigna, Lt. General Leopoldo Galtieri, Admiral Jorge Anaya and Brigadier Basilio Lami Dozo -all members of the *Juntas Militares* (Clarín, 14-12-1983, p. 2-3).

Alfonsín also set up the *Comisión Nacional sobre Desaparición de Personas* - CONADEP- (National Commission on Disappeared People) made up of well-known figures such as the Catholic Bishop Jaime de Nevares, the Protestant Bishop Carlos Gattioni, the Rabbi Marshall Meyer, Professor of Epistemology Gregorio Klimovsky, jurist Ricardo Colombres, Doctor Rene Favaloro, the former Chancellor of the University of Buenos Aires Hilario Fernández Long, the philosopher Eduardo Rabossi, the writer Ernesto Sábato and the journalist Magdalena Ruiz Guiñazú. There were also six places for MPs and senators. The Commission was to accept denunciations and evidence of human rights violations and send them to the judiciary. It was also charged to discover the whereabouts of the *desaparecidos* and of the abducted children, and to present, within six months, a report to the President with a detailed account of its findings (Fontana, 1987, p. 386).

In addition, Alfonsín sent his proposal for the reform of the Military Justice Code to the Congress (Clarín, 14-12-1983, p. 2-3). His proposal decreed that the *Consejo Supremo de las Fuerzas Armadas* (Supreme Council of the Armed Forces) had to deal with the offences attributable to members of the Armed Forces, and those members of the security forces, the police, and the penitentiary service operating under the orders of the Armed Forces. The *Consejo* was to examine those offences committed between the 24th March 1976 and the 26th September 1983 (Clarín, 14-12-1983, p. 2-3). In case of delay in the judicial procedures, the *Consejo* had to inform the Federal Chamber of Justice on the causes of this delay. If the Federal Chamber considered that the delay was unjustified, it would take over responsibility



for the judgements. Finally, the reform laid down that in the cases of individuals who had acted under orders of the highest officials of the Armed Forces and the *Junta Militar*, it could be presumed that these individuals acted under the mistaken belief in the legitimacy of these orders (Fontana, 1987, p. 384).

In February 1984 the Congress passed the law for the modification of the Military Justice Code, but Senator Elías Sapag of the provincial *Movimiento Popular Neuquino*, invoked modifications to the legislation. Sapag's amendments laid down that those individuals who had acted under orders could not be excused from punishment when they had committed aberrant and atrocious acts (Clarín, 2-2-1984, p. 8). One of the objectives of Alfonsín's reform was to enshrine the three levels of responsibility distinguished by him -the so-called 'due obedience' proposal. Senator Sapag's modification undermined the juridical applicability of these distinctions. Alfonsín did not reject it, however, and sanctioned the law. He believed that the sentence of the *Consejo Supremo* would enable him to apply his 'due obedience' proposal since the sentence would clarify the hierarchy of the Armed Forces for the implementation of State Terrorism (Fontana, 1987, p. 388).

The first military crisis under the democratic government was unleashed in September 1984 when the report of the National Commission on Disappeared People was published (La Nación, 20-9-1984, p. 1). This report revealed the extent of State Terrorism. It gave details of concentration camp locations, tortures, the fate of some of the *desaparecidos*, and the whereabouts of their bodies. The Army Chief of Staff, General Jorge Arguindegui, publicly alleged the existence of a campaign within the Army against his authority; therefore the Minister of Defence decided to replace him with General Pianta (Fontana, 1987, p. 389).

By this time, after two delays, the *Consejo Supremo* sent, to the Federal Chamber of Justice, a report supporting the Armed Forces' procedures in their struggle against the guerrilla (La Nación, 26-9-1984, p. 1). This report was



condemned by the Federal Chamber, which decided to take over, due to the unjustified delay of the *Consejo* (La Nación, 5-10-1984, p. 1). This was the first defeat of Alfonsín's policies towards the Armed Forces, since the *Consejo* did not condemn the struggle against the guerrilla movement, undermining the possibility of the process of 'self-cleansing'.

The Federal Chamber of Justice began on the 22nd of April 1985 the public judgement against the *Juntas Militares* (La Nación, 23-4-1985, p. 1). This was an historic event. Never before had the Argentinian military dictatorships been judged for their 'excesses'. From Alfonsín's point of view the public judgement established the foundations for the consolidation of democracy, since it would prevent future generations of Generals, Admirals and Brigadiers overthrowing democratic governments (Alfonsín, 1992, p. 69).

### *iii. The failure of the 'self-cleansing' of the Armed Forces*

Alfonsín's policies towards human rights violations failed on two issues which would influence his subsequent years in office. First, the government misunderstood the perception of the Armed Forces over the accusations of human rights violations. The attempt of bringing about a 'self-cleansing' of the Armed Forces required that they would recognise the struggle against the guerrilla as illegitimate. Alfonsín expected them to condemn State Terrorism through the judgement of the members who applied it, but in fact the *Consejo Supremo* did not condemn State Terrorism. On the contrary, the Armed Forces, time and again, supported their struggle against the guerrillas and proudly recognised it as a complete success (Fontana, 1987).

In fact the defence of State Terrorism unified the Armed Forces. During the military government the tension between them had been very evident -especially between Massera's Navy and Videla's Army leadership. Horizontal cleavages had appeared. These cleavages, based on ideological and professional differences, cut

across hierarchical lines of authority. Ideological differences had emerged in reference to Martínez de Hoz's economic strategy, which was resisted not only by former President Viola but also by a considerable number of low rank officials. The professional differences concerned the management of the Malvinas war<sup>2</sup>. Those low rank officials who did not approve Martínez de Hoz's plan were those who went to the Malvinas war and later criticised the management by Generals in their Buenos Aires' offices. Despite these differences, the Armed Forces were united in their defence of State Terrorism. Alfonsín misunderstood the importance that the Armed Forces attached to their struggle against the guerrilla<sup>3</sup>.

The second failure was Alfonsín's attempt to set in motion the juridical applicability of the three levels of responsibility. Senator Sapag modified Alfonsín's proposals. Sapag's modification undermined the concept of 'due obedience' since, in fact, most of the actions under the implementation of State Terrorism had been aberrant and atrocious acts.

Alfonsín's main objective was that once the *Consejo Supremo* had 'cleansed' the Armed Forces, the government would apply the concept of 'due obedience' to the rest of the officials. However, the *Consejo Supremo* and Senator Sapag's modification aborted Alfonsín's plan.

As noted earlier, these two failures would have an influence in subsequent years. At the very beginning of the democratic government the Armed Forces were discredited. Information on concentration camps, torture, assassinations, and abduction of children swamped the first period of the democratic government. Also, the defeat of the Malvinas campaign had discredited the Armed Forces as a military force. Eighteen year old soldiers had died in the war while the military hierarchy sat in its Buenos Aires' offices. These two consequences of the military dictatorship would exacerbate the anger felt towards the Armed Forces. Indeed, under the democratic government, public opinion required not only the acknowledgement and



disclosure of the truth about the 'dirty war' but also the punishment of those who both ordered and committed the acts.

Alfonsín's policies had the opposite effect from what he intended. Rather than undermining the political role of the military, they actually served to facilitate the 'repoliticisation' of the latter. After the acknowledgement of the horrors of State Terrorism, Argentinian public opinion demanded the prosecution and punishment of human rights violators. By this time, Alfonsín could no longer control his policies towards the Armed Forces, the implementation of the 'due obedience' proposal would have been 'political suicide'<sup>4</sup>. Besides, by this time, Alfonsín was regarded, nationally and internationally, as a 'hero'<sup>5</sup> since he ordered the judgement of the *Juntas Militares*, a previously unknown event in Argentina and Latin America. This was his main achievement as regards the Armed Forces and, indeed, established the foundations for the consolidation of liberal democracy. However, this achievement was, later, forgotten due to the sanction of the *Punto Final* (Full Stop) and 'due obedience' laws. I discuss the consequences of these two measures below. Now, I turn to analyse Alfonsín's relationship with the trades union movement.

## II. The coexistence with the *sindicalismo peronista*

### *i. The Radical government's objectives*

From 1983 to 1985, Alfonsín's government applied two different strategies towards the trade unions. In the beginning Alfonsín's administration adopted a policy of confrontation. This failed, due to a number of factors. First of all, within the government there were two different approaches towards trade unionism. On the one hand, a combative line with the objective of undermining the power of the trade unions, taking advantage of Peronism's recent electoral defeat (Beliz, 1988, p.

169). This sector wanted to *desperonizar* the trade unions, breaking down their historical alliance with Peronism. The *desperonización* therefore involved the political restructuring of the trade unions. However, it was also understood as the way through which Radicalism could find a powerful place in the trades union movement (Gaudio *et al*, 1990, p. 38). If this was the long-term objective, in the short-term to *desperonizar* meant to break down the historical alliance between the trades union movement and Peronism which gave the former a powerful place in the Argentinian political process.

On the other hand, there was a moderate line, within the Radical Party, which argued that the government should consolidate alliances with the trade unions and business organisations in order to secure future achievements (Beliz, 1988, p. 169). A consequence of the struggle between these two approaches was that the government policy itself was not unified and its decision-making process lacked coherence. Alfonsín, himself, on many occasions changed his position. At the beginning of his term in office, he supported the combative line. Arguing that unionists in charge of the main trade unions were those who had confronted Illia's government, Alfonsín believed that they no longer represented the workers (Gaudio *et al*, 1990, p. 17). He argued that the trades union movement was totalitarian (Abós, 1984, p. 101). In this sense, he attempted to 'democratise' the trades union movement. By 'democratise', the government was trying to modify an historical tendency of the trade union elections, namely the predominance of presenting only one candidate for the elections. In other words, in trade union elections there was only one candidate for each union, there was no opposition (Gaudio *et al*, 1990, p. 36). Based on this assessment, Alfonsín argued that the trade unionists did not represent the workers (Gaudio *et al*, 1990, p. 17). Alfonsín wanted to end this practice, giving full participation to minorities.

Alfonsín favoured the establishment of a social agreement among the government, the trade unions and the business organisations (Gaudio *et al*, 1990, p.



20). However, before achieving it, the trades union movement, it was argued, should be 'democratised'. Alfonsín explained his objectives towards the 'democratisation' of the trade unions, arguing that "the new trade union must be organised from the bottom to the top (...) It has to be organised by the genuine expression of the workers without any influence from the state, the political parties or the business organisations; its electoral procedures must be controlled by the Judiciary, assuring the participation of minorities (...)" (Discursos Presidenciales, 1983, p. 17). In this sense, the Radical government promoted the abolition of the legislation of the last military dictatorship on the trades union movement and its replacement by new legislation to guarantee the participation of minorities and secure independence from any political party. It also promoted that the *Obras Sociales* (Health Service Funds) would be independent from the trade unions and would be incorporated into a National Health Plan (Plataforma Electoral Nacional de la Unión Cívica Radical, 1983, p. 24).

Regarding the new legislation for electoral procedures, the Radical's proposal was based on the non-recognition of the unionists who had been elected under the military dictatorship. Therefore, the first elections would be controlled by the government. The Radical government argued that, as the current unionists did not represent the workers, they could not be relied upon to control the elections (Gaudio *et al*, 1990, p. 52). The objective of this strategy was essentially to control the trade union elections and to undermine the power of the unionists by connecting them with the military dictatorship. It was a tool for weakening the role of Peronism among the trades union movement, and, therefore, to politically demobilise the workers. However, the Radical government failed in this attempt.

Regarding wage policy, Alfonsín's administration maintained the decree-law of the last dictatorship which empowered the government to determine the level of wages. In order to match changes in the inflation rate the Radical administration decided to increase wages rates every three months (Gaudio *et al*, 1990, p. 46). The trade unions were demanding the establishment of free collective bargaining; the

government argued that the economic situation was too unstable to establish this demand since this would undermine government control of wage and price increases (Gaudio *et al*, 1990, p. 133). After the attempt to 'democratise' the trade unions failed, the discussion between the government and the trade unions focused on the level of wages and the establishment of free collective bargaining.

As the analysis of Alfonsín's government shows, despite the modifications undergone by the labour movement under the military dictatorship, the trade unions proved to be still quite powerful. Indeed, the democratic government could not control the more combative sections of the trades union movement.

## *ii. The trade unions position*

Under the military dictatorship, the trades union movement had been modified. As explained above, the economic structural reform which led to the dismantling of the industrial sector and the *desasalarización*, *terciarización* and *pauperización* of the working class, directly hit the power of the trades union movement. Moreover, the implementation of State Terrorism provoked the disappearance of the most combative sector of unionists (Gaudio *et al*, 1990, p. 26). Finally, the peak organisation, the CGT, was divided into two sectors the *CGT-Brasil* which confronted the military dictatorship and the *CGT-Azopardo* which negotiated with the military government. One of the main objectives of both CGTs was the unification of the organisation.

Under the democratic government the trades union movement position was represented by 'unified' CGT policies. The CGT's priorities were to improve real wages, to reactivate the economy, and to modify the labour legislation enacted by the military dictatorship, specifically to establish free collective bargaining (La Voz, 26-1-1984, p. 5). The CGT argued that democracy would be established only



after the improvement in real wages and the achievement of full employment (Clarín, 3-2-1984, p. 3).

The first confrontation with the Radical government was focused on the new legislation for trade union elections. The CGT argued that the legislation was a tool to institutionalise state intervention in the internal matters of the trade unions. The CGT proved to be still able to block the government strategy through its connections with Senators from the Peronist Party and other provincial parties. After this confrontation, the main discussion focused on wage increases and the legislation for free collective bargaining.

The confrontation policy of the trades union movement was mainly based on the deterioration of the workers economic situation. It also pushed for the establishment of free collective bargaining, and the abolishment of the military dictatorship laws. Thirteen general strikes and thousands of official labour conflicts were the means through which the union movement confronted the democratic government. However, the most significant event was the support given to the Radical government by the unions at the first military rebellion. Indeed, this was the first time that the trades union movement supported a non-Peronist democratic government threatened by the Armed Forces.

Although the trade unions proved to be powerful, achieving their most important objectives, they could not modify the government's overall economic strategy, and thus, they could not achieve an improvement in the workers situation. Let me now turn to an analysis of the first two years of confrontation between the trade unions and the Radical government.

### iii. *From confrontation to concertación*

In order to deal with the *sindicalismo peronista*, Alfonsín appointed Antonio Mucci of the graphic workers as Minister of Labour. Mucci belonged to the combative wing of the Radical Party whose objective was to *desperonizar* the trades union movement (Beliz, 1988, p. 169). One week after taking office Alfonsín sent his proposals for trade union elections to the Congress (Clarín, 21-12-1983, p. 2). Its main objective was to 'democratise' the trade unions through a call for elections under a special regime. It applied to the trade unions that were still subject to government intervention or under the direction of a 'normalising delegate' (*delegado normalizador*). Under the proposal, the Labour Minister would appoint a delegate who would form a *Junta Fiscalizadora* (Regulation Board) with representatives from all the different leadership teams. The *Junta* would control the delegate who, in order to call for elections, would assume the attributes of the General Secretary of each of the trade unions. The proposal also provided for the presence in the commissions of electoral minorities, the reduction of the term of office, the control of Electoral Justice and the implementation of secret, direct and compulsory voting (Clarín, 19-12-1983, p. 2).

Trade unionists were unified in defending their role against Alfonsín's proposal: in January 1984, the leaders of both *CGT-Brasil* and *CGT-Azopardo*, agreed on the reunification of the CGT and the appointment of four co-secretaries: Saúl Ubaldini of the beer workers and Osvaldo Borda representing the rubber industry from *CGT-Brasil*, and Jorge Triaca of the plastic workers and Antonio Baldassini of the post-office workers from *CGT-Azopardo* (Clarín, 11-1-1984, p. 9). They rejected the role of the government in designating a delegate to conduct the electoral process. Ubaldini argued that Alfonsín's proposal was an attempt to legalise government intervention in the trades union movement (Clarín 3-2-1984, p. 12).



Indeed, the democratic government, due to its non-recognition of the trade unions authorities, attempted to intervene in the electoral procedures by appointing a delegate to control the elections. Although the government stated that this intervention was only for the first round of elections, its main objective was to *desperonizar* the trades union movement. In this sense, the unionists, arguing for the independence of the movement, were also trying to block the *desperonización*. The Radical government, behind the slogan of 'democratising' the unions, was attempting to break down union connections with Peronism, which was a tool to achieve the political demobilisation of the workers. In this regard, the Radical government intended to restructure social relations by modifying the historically powerful role of the unions in the political scenario.

However, the government's proposal was rejected by the Senate. Senator Elías Sapag argued that only the workers had the right to decide on the internal organisation of the trade unions<sup>6</sup> (Clarín, 15-3-1984, p. 3). The opposition of Sapag's party determined that the law was rejected.

After the failure of this first attempt to increase influence over the trade unions, the government attempted to achieve a *concertación social* (social agreement), the first step towards which was the appointment of Juan Manuel Casella as Minister of Labour (Gaudio *et al*, 1990, p. 58) <sup>7</sup>. The *concertación social* attempted a three-sided accord among labour organisations, business organisations and the government to attack inflation and change the economic situation. In addition, a new post was created, a Presidential delegate responsible for 'normalising' the trades union movement. Hugo Barrionuevo, a trade unionist, was appointed to the new position. His main task was to begin a new round of negotiations with the trade unionists to organise elections. (Gaudio *et al*, 1990, p. 55). Alfonsín had moved towards the more pro-unionist sector of the Radical party. He was now trying to achieve an agreement with the trade unions after being unable to undermine their

political power. As said, the appointment of Juan Manuel Casella was the first sign of Alfonsín's new approach to the trade unions.

As the CGT had won the first confrontation with the government, now it began to demand the establishment of free collective bargaining as one of its most important objectives. The government was first arguing that free collective bargaining would be established after the trade union elections (Gaudio *et al*, 1990, p. 53). After the elections, the democratic government argued that the economic situation made free collective bargaining very risky, in the sense that the government would loose its control over wage and price increases, which could provoke increases in the inflation rate (Gaudio *et al*, 1990, p. 133). In this sense, the government implied that inflation derived only from wage increases. Later, however, the government would argue that the main cause of inflation was the high fiscal deficit. Nevertheless, the economic situation was always employed as an excuse to postpone the sanctioning of free collective bargaining legislation.

The main discussion in the *concertación* framework focused on wage increases and, as it is shown below, the government took the final decision on the size of increases without taking into account the CGT's demands. But, by trying to agree with the CGT in the framework of the *concertación*, the government attempted to prevent labour conflict. While the CGT was joining the *concertación*, it could not oppose the government's economic strategy outside this framework. Indeed, for the two general strikes the CGT left the *concertación*, only to rejoin the process at a later date. The *concertación* was, in this sense, a means to control the opposition of the trades union movement.

In the beginning the *concertación* attempt focused on the electoral system for the trades union movement. One of its first outcomes was a proposal for electoral procedures, agreed between the trade unions and the government. This differed from Alfonsín's proposal in that the existing authorities -precisely those that Alfonsín did



not consider representative of the workers- would call for elections. In July, the new proposal was passed by the Congress (Clarín, 5-7-1983, p.7).

In August, the first meeting of the *concertación* attempt was held at the Home Affairs Ministry. Representatives of the CGT, other workers organisations<sup>8</sup>, and employers organisations discussed the agenda with the Ministers of Economy, Health, Labour and Home Affairs. The objective of the government move was to avoid a struggle for the distribution of wealth, to prevent inflation, to increase wages, and to attain economic growth (Clarín, 3-8-1984, p. 3).

The government, despite the *concertación*, decided to increase the statutory minimum wage (*salario mínimo vital*<sup>9</sup>), the conventional base wage for collective bargaining which would include a bonus (for attendance, seniority, productivity), and general wage levels by 18 per cent. The CGT accepted the increase but demanded that the bonus should be over and above the minimum wage arguing that it was an incentive for the workers and a supplement to the basic wage (Gaudio *et al*, 1990, p. 97). As the government refused to grant this demand, the CGT decided to call a general strike for the 3rd of September and to leave the *concertación* process (Clarín, 30-8-1984, p. 2). By this time, the government had signed its first 'letter of intent' with the International Monetary Fund. In this, the government committed itself to "continue to decree wage adjustments for the public and private sector on a monthly basis, with catch-up increases from time to time" (Stiles, 1987, p. 70). This clause was crucial since it represented Alfonsín's commitment to maintain the buying power of the workers (Clarín, 26-9-1984, p. 2). However, despite Alfonsín's commitment the purchasing power fell between 1984 and 1985: from a base index of 100 in 1986, for the private sector purchasing power went from 101.62 in 1984 to 98.50 in 1985, while for the public sector it went from 105.29 to 100.17, over the same period (Banco Central de la República Argentina, 1992, figure 11.8).

According to CGT calculations, adherence to the first general strike was 87 per cent, 60-65 per cent according to the government (La Nación, 4-9-1984, p. 1). After the September general strike the CGT returned to negotiate with the government within the framework of the *concertación* process (La Nación, 6-9-1984, p. 1). As a condition upon its return, the CGT demanded that it be the only workers organisation involved in the *concertación* attempt (Gaudio *et al*, 1990, p. 105). The government accepted this condition, and thus, the *Grupo de los 20* left the *concertación* attempt.

In October, Casella renounced his position as Labour Minister and Hugo Barrionuevo was named by Alfonsín as his successor (Gaudio *et al*, 1990, p. 107). Barrionuevo, a militant of the *Grupo de los 20*, had previously been appointed as the Presidential delegate to agree with the trade unions the organisation of the electoral process.

Due to its failure to agree with the government, in January 1985, the CGT, once again, left the *concertación* process. It demanded the establishment of free collective bargaining, the reactivation of the economy, the restitution of the *Obras Sociales* to the trade unions, and *concertación* without the 'interference of international capital' (referring to the negotiations with the IMF) (Clarín 7-1-1985, p. 3). After a meeting with Alfonsín who then took the compromise decision to reduce the fiscal deficit and to clamp-down on tax evasion, the CGT rejoined the *concertación* process (Gaudio *et al*, 1990, p. 109). The government presented a report announcing its economic strategy for the next five years, the main objectives being to improve investment in order to increase exports, and to transform the productive basis of the country focusing efforts on investment and exports (La Nación, 14-1-1985, p. 8).

In February, the so-called *Grupo de los Once*<sup>10</sup>, presented to the government its proposal for a social agreement and an economic development programme. The



main difference with the government's report was that the *Grupo de los Once* referred to the necessity of an economic adjustment. The report proposed an economic adjustment in order to attain growth, to prevent inflation, to maintain real wages, to reduce public expenditures, and to achieve full employment (Clarín, 9-2-1985, p. 2). The organisations demanded the reduction of the fiscal deficit, the control of tax evasion, the promotion of public and private investment, the reduction of the participation of the state in the economy and the promotion of exports. They also demanded steady economic growth as the guarantee to maintain real wages. Regarding the external debt, they stated that the effort to service the debt should be balanced by negotiations to postpone interest payments (Clarín, 9-2-1985, p. 2). Another difference between this plan and the government's economic policy was that the latter was promoting exports without increasing domestic demand while the *Grupo* emphasised the need to expand domestic demand. These elements were designed to mainly benefit the working class, and the industrial and agricultural sectors. However, the government argued that such a plan, in a context of high inflation, would simply increase the inflation rate even more. (Clarín, 10-2-1985, p. 15).

The temporary coalition of the *Grupo de los Once* was a quite significant effort from the CGT and the employers organisations to achieve an agreement on economic policy. However, by this time the government had short-term troubles: in January due to an inflation rate of 25 per cent, the IMF considered that the September 1984 agreement had been broken (Machinea, 1990, table II.2). The government was confronting both an increasing inflation rate and a new round of negotiations with the Fund. Moreover, due to his incapacity to prevent rising inflation, Grinspun resigned (Clarín, 19-2-1985, p. 14). Juan Vital Sourrouille, the new Economics Minister, began to prepare the ground for the *Austral* Plan.

Under Grinspun's strategy, from a base index of 100 in 1980, the median wage index was 100.5 in 1983 and 127.1 in 1984 (Economic Commission for Latin America and the Caribbean, 1987, p. 17). However, the CPI was 343.8 in 1983 and

626.7 in 1984 (IMF, 1988, p. 119). Therefore, purchasing power in 1984 was 6.8 per cent of 1983 level. As Grinspun's economic policy could not prevent the rise of inflation, the periodic wage increases it sanctioned did not improve the workers situation.

In April 1985, the Labour Minister announced his decision to increase wages by 90 per cent of the previous month's inflation starting from May<sup>11</sup>. This measure represented a further decrease in workers' purchasing power and as a response to it, the CGT approved a 'plan of action' (*Plan de Lucha*) comprising social demonstrations between the 30th of April and 17th of May in Rosario, Tucumán, Córdoba, Neuquén and Mendoza, to be followed by a general strike on 23rd of May with a social demonstration at *Plaza de Mayo* (Latin American Weekly Report, 3-5-1985, p. 10).

On the 23rd of May the general strike together with the social mobilisation at *Plaza de Mayo* ended the first stage of the CGT's *Plan de Lucha*. This strike had total adherence in the industrial and tertiary sectors (Fraga, 1991, p. 25). It also had the support of the Argentinian Industrial Union (UIA), the Argentinian Rural Society (SRA), the Construction Chamber, and human rights organisations (Gaudio *et al*, 1990, p. 118). In his speech, Ubal dini argued that if the government was unable to modify its economic policy, it must go (La Nación, 24-5-1985, p. 1). After the *Plaza de Mayo*'s demonstration the CGT rejoined the negotiations with the government to press for a change of economic strategy and to discuss the *Grupo de los Once* proposal (Clarín, 3-6-1985, p. 2). However, only a few weeks later, the CGT demanded a 50 per cent wage increase, and once again left the *concertación* (Clarín, 3-6-1985, p. 2).

With the launching of the *Austral* Plan, the government destroyed its own *concertación* strategy.



#### *iv. The failure of the 'concertación' strategy*

The Radical government's objective to politically demobilise the trades union movement failed. The trade unions proved to be powerful enough to continue blocking the *desperonización* process which forced the government into *concertación*. The *concertación* attempt was defeated not only by the incapacity of the government to control the trade unions but also by the aggravation of the economic situation.

When the *Grupo de los Once* presented its economic proposal, the government did not even discuss it because, by this time, Grinspun had been replaced by Juan Sourrouille who was planning a *heterodox* economic programme. This signified the government's abandonment of *concertación*. Discussing the *Grupo de los Once* proposal could have achieved an agreement between the government and *los Once*, which could have given the necessary domestic support for the 1985 economic reform. However, the government rejected such agreement because it had already decided on a solution to the 'external debt dilemma'. The improvement of investment in order to increase exports, one of the objectives of the government's proposal, was necessary to pay the interest on the debt (the proceeds from exports being the main source of revenue). Thus, in the dilemma -to pay or not to pay the debt- the government had already decided to service the debt. For the Radical government non-payment was the greater evil, since it would have put the whole democratisation process at risk. This meant that the *disciplinamiento social* started by the military dictatorship was not going to be reversed.

Regarding the rejection of the *Grupo de los Once* proposal, the economic team emphasised the significance of the 'surprise element' in the launching of the *Plan Austral*<sup>12</sup>. However, the 'surprise element' was no more essential than winning the domestic support for the reform. The government would, later, be widely criticised for its authoritarian way of applying the economic reform (Clarín, 16-6-1985, p. 4-5). At least some pillars of the 1985 economic reform and the *Grupo de los Once*



proposal could have been discussed in order to try to obtain domestic support. The government, however, preferred to keep the economic reform secret, arguing that a price and wage 'freeze' could not be announced since it would, of course, be pre-empted by large price rises before the imminent 'freeze'. Thus, instead of being a means to reach a social agreement for the launching of the 1985 economic reform, the *concertación* was merely the framework within which the government and the trade unions fought over the level of wage increases.

In order to understand the government's attitude towards both the *concertación* attempt and the *Grupo de los Once* proposal, one must look at the government's decision regarding the 'external debt dilemma'. When Grinspun's economic strategy failed, the government found itself under pressure from the international creditors and Argentinian public opinion. While the former demanded the payment of the external debt, the latter required economic growth. Indeed, by this time, the international creditors were threatening a *cesación de pagos* - suspension of payments- while Argentinian public opinion was unhappy with an annual inflation rate of 626.7 per cent for the first year of the democratic government (Fanelli *et al.*, 1990, table 20) and a modest 2.2 per cent growth rate, GDP still below its 1980 level (Fanelli *et al.*, 1990, table 1). Payment of the debt and the achievement of economic growth were clearly incompatible. The government took a decision which was an ambiguous path between the two extremes of the 'external debt dilemma'. The *Austral* Plan was a *heterodox* strategy -in distinction to orthodox IMF plans- through which the debt would be partially repaid without implementing harsh economic adjustment. But, the government did not clearly communicate the 'external debt constraint' -that is, the incompatibility between paying the debt and achieving economic growth. Hence, while the CGT was demanding economic growth, the government was trying to negotiate the *degree* of adjustment with its international creditors. The government was happy with what it had achieved: the *Austral* Plan was an alternative program to orthodox IMF plans. The



CGT was unhappy with the government's strategy: the *Austral* Plan was not an economic growth strategy. The *concertación* attempt failed due to the government's unilateral decision over the 'external debt dilemma'. The government's decision, in not according growth full priority, served to deepen the effects of the dictatorship *disciplinamiento social*.

Thus, the Radical government could neither control the political power of the trade unions nor avoid implementing an economic adjustment. The latter would, of course, exacerbate the confrontation with the trade unions. I turn now to analyse the Radical's ultimately unsuccessful attempt to resist the IMF.

### III. The economy: resisting the International Monetary Fund

#### *i. The external debt: the power of the international creditors over a new democracy*

It has become a common place to state that external debt -its size and the conditions for its repayment- as well as its interest payments, constrains economic growth. However, it has not yet been highlighted, exactly *how* the external debt, through the pressure of the international creditors, constrained the new Latin American democracies.

Latin America, in the eighties, has seen the development of two contradictory processes. On the one hand, the military dictatorships began to fall. On the other, from 1982, the external debt crisis emerged. A lot has been said and written about these two processes. Most scholars<sup>13</sup> agreed that the debt threatened democratic consolidation. However, by the earlier nineties, no military government had overthrown a democratic government in South America. Nevertheless, there were

some coups threats -such as in Venezuela-, 'unusual coups' -such as that of Fujimori-, and even some 'constitutional constraints to democracy' -such as Paz Estenssoro's state of siege when implementing the New Economic Policy in Bolivia. However, military dictatorships like those of the sixties and seventies did not emerge. While the external debt clearly limited economic policy choices, it did not reverse the process of democratization<sup>14</sup>. The international creditors -namely the IMF, the commercial banks<sup>15</sup>, the World Bank- and the US government became crucial actors in the economic policy making process. In Dornbusch's (1990, p. 322) words "today no Latin American government undertakes significant economic change without checking first in Washington". Alfonsín's *Austral* Plan was mooted in IMF circles before it was discussed even by the Radical Party itself<sup>16</sup>.

The eighties were labelled the 'lost decade' since Latin American countries had to deal with both a deep internal economic crisis and the external debt. In 1989 the Economic Commission for Latin America and the Caribbean (CEPAL, 1989, table 9.1) estimated that per capita output in the 1980s in the region as a whole declined by almost 10 per cent, following the increases of almost 40 per cent in the seventies and 30 per cent through the sixties.

Despite their internal crisis and the differences between them, Latin American countries were compelled to apply IMF adjustment plans in order to deal with the internal crisis in such way as to allow them to pay the external debt. The dilemma was either to pay the debt or to be 'let out' of the international financial system. It was not debt repayment *or* democracy -as most democratic politicians believed, most notably Alan García and Raúl Alfonsín- but rather debt repayment *and* democracy (Drake, 1989, p. 53). Indeed, while foreign governments (mainly that of the US) (Canitrot, 1991, 129) supported democracy they also demanded debt repayment. There was no other choice for a liberal democratic state than to negotiate with the IMF. Although, the new democracies made efforts to avoid the IMF's plans, eventually all of them were obliged to accept IMF conditions<sup>17</sup>.



The so-called 'Washington consensus' was the set of policies that was 'suggested' as a uniform solution for all Latin American countries, despite the considerable differences between them. The 'Washington consensus' has been defined as macroeconomic prudence, outward orientation and domestic liberalisation (Williamson, 1990, p. 1). 'Washington' was understood as the IMF, World Bank, US executive branch, the Inter-American Development Bank, those members of the US Congress interested in Latin American politics, and the think tanks concerned with economic policy (Williamson, 1989, p. 1). The main policy instruments of the 'consensus' were defined as fiscal discipline and the reduction of some public expenditures such as subsidies, tax reform, market-determined interest rates, competitive exchange rate, import liberalisation, promotion of foreign direct investment, privatisation, deregulation and new laws on property rights<sup>18</sup>. However, the so-called 'Washington consensus' did not take into account either the differences among Latin American economies nor the domestic consequences of the external debt services.

The main criticism of this 'consensus' was that in the face of spiralling interest payments on the debt, public expenditure could not easily be cut. This forced the new democratic governments to look for reductions in social expenditure, cutting back their already minimal 'welfare states' (Meller, 1990, p. 33).

Moreover, Latin American countries transferred to the developed countries a net flow of resources amounting to US\$ 203 billion between 1982 and 1989 (Iglesias, 1990, p. 346). This amount was nearly half of the region's total debt. The 'consensus' did not take into account these transfers and how they constrained the possibilities for Latin American economies to grow. On the contrary, while the 'Washington consensus' was being suggested as the solution for Latin America, periodical increases of interest rates raised interest payments on the debt. Latin American countries could do nothing to prevent the spiral.

Likewise, a decline by 20 per cent in the terms of trade during the 1980s was, by 1989, costing Latin America an additional US\$ 30 billion per year (Iglesias, 1990, p. 346). Once again, Latin America did not control this situation.

The philosophy behind the 'Washington consensus' was that internal structural reforms were necessary to stabilise Latin American economies and enable them to gradually pay off the external debt. However, what this strategy ignored was the detrimental effect such programs would have on economic growth in Latin America. In the process of implementing the measures, which would permit a reduction in the external debt liability, the new democratic governments of Latin America provoked deep economic crisis.

The experiences of adjustment showed that the 'Washington consensus', in promoting stabilisation, restricted rather than fostered economic growth. This was notably the case in Bolivia where the New Political Economy<sup>19</sup> (considered as an orthodox adjustment program), applied in 1985 by Paz Estenssoro, stabilised the economy but also produced a deep economic recession<sup>20</sup>. Argentina is the best example of a government which, recognising the negative effects of the IMF plan, tried to avoid full implementation of the latter.

Indeed, as explained in more detail below, in the first years of the democratic government, Argentina tried to treat the external debt as a 'political issue' and to negotiate with the creditor governments and the commercial banks without committing itself to an agreement with the IMF. The debt was a 'political issue' in two respects. First, Argentina argued, at the Quito Conference in January 1984, that the debt had a 'legitimate' and 'illegitimate' component. It stated that "40 to 50 per cent of the private debt is fictitious, yet the state assumed responsibility for it, indiscriminately, in late 1982" (Latin America Weekly Report, 13-1-1984, p. 2). Alfonsín's government explained the 'illegitimate' side of the debt arguing that between mid-1980 and March 1981



"local takers covered their positions by purchasing cheap foreign exchange on the free market while keeping their commitment registered (with the Central Bank), which enabled them to repatriate capital... Through this undeclared outflow of foreign exchange they cancelled 40 per cent to 50 per cent of the private external debt-commitments which the state later assumed as its own" (Latin America Weekly Report, 13-1-1984, p. 2).

This was the 'illegitimate'<sup>21</sup> side of the external debt which Argentina felt it was not obliged to pay. Second, the debt was viewed as a 'political issue' since the debt crisis emerged simultaneously with the democratisation process. Alfonsín wrongly believed that the international creditors would be more lenient with a democratic government. He thought that the creditor governments would show their support for democracy by not pressing for repayment of the debt. This would allow Argentina to avoid an IMF negotiation which would impose an economic adjustment. However, after one year in office, the government signed its first letter of intent with the IMF. The debt was not regarded by the IMF as a 'political issue'. Neither the 'illegitimate' side nor the significance of democracy were considered by international creditors.

For the incoming democratic government, the burden of a US\$ 45.069 million<sup>22</sup> external debt became the most serious legacy of the military dictatorship. The interest payments created a vicious circle. In order to service the interest payments, the government had to take away from the economy some resources while asking Argentinian society to adjust according to the IMF plan. However, after seven years of military dictatorship, most of the population were expecting concrete and short-term benefits from democracy. This was notably the case of the working class which had suffered most under the dictatorship, with a 17 per cent decline in industrial wages from 1971 to 1981 (Gerchunoff and Dieguez, 1984, p. 25). Therefore, in such a context, the democratic government had to deal with both the interest payments of the external debt and the social demands of the working class. If

it did not pay and did not apply the economic adjustment, it had to confront the international creditors. If it did pay and did apply the adjustment, it would have to confront the opposition of the trade unions.

Of course the money which would be reused to service the debt would use up resources which could otherwise be invested in improving the productive capacity of the Argentinian economy. Such investment was essential since the original debt taken out by the military dictatorship had not been used to undertake structural improvements of the Argentinian economy. Rather it had been used for speculation in the financial market or had been transferred abroad through the process of capital flight (Crystal, 1994). Moreover, the private debt, which represented approximately 30 per cent of the total debt (see Table nº 7), had been 'nationalised' during the last period of the dictatorship, transferring liability to Argentinian citizens. With the 'nationalisation', the debt became a fiscal problem by the way of an increase of the fiscal deficit.

Taken together these problems rendered the incoming democratic government unable to service the debt. However, a moratorium would worsen the situation even more since it would provoke the closure of any financial aid to Argentina. This was the vicious circle.

Regarding this dilemma, the democratic government decided that to service the debt would be more beneficial than to declare a unilateral moratorium. The attempts to organise a debtors club among the Latin America countries failed and each country started a negotiation process with the IMF. Alfonsín was influenced by the example of Perú, where Alan García's plan for paying only 10 per cent of export revenues, provoked the international creditors and the US government to withdraw financial aid even though Perú's poverty together with the threat of *Sendero Luminoso* and of the drugs dealers put the democratisation process at risk<sup>23</sup>.



Despite the 1982 war, Argentina was still reliant on its commercial relations with European countries. Although Alfonsín's electoral victory was welcomed by France and Spain, this did not lead to the improvement of economic relations<sup>24</sup>. The protectionist measures applied by the European Community on its agricultural products damaged the trade between Europe and Argentina. Due to the protectionist measures and the attitude of the European countries towards Argentina after the war, Alfonsín's administration tried to improve relations with Europe instead of further harming the already damaged relationship (Russell, 1987). To service the debt became crucial in order to maintain Europe's support.

The relationship with US government was also damaged because of the war and, once again, in order to improve this relationship Alfonsín felt obliged to pay the external debt. Moreover, the Reagan administration, despite having welcomed the return to democracy, was quite clear in regarding a negotiation with the IMF as a prerequisite to start negotiations with the commercial banks and the debtor countries<sup>25</sup>.

In order to rebuild Argentina's international relations, Alfonsín's government decided not only to pay the debt but also to accept the IMF conditions. The external debt constrained the democratic government since the decision whether to pay or not determined the fate of the government. Both decisions restricted the margin of manoeuvre of the government. Whether it paid or not, its resources were going to be scarce. Argentina possessed few resources to continue servicing its debt. However, this very situation rendered non-payment, and the isolation which this would lead to, hard to contemplate. Indeed, the confrontation with the international financial market could even have provoked a military coup. Either way, non-payment would have put the democratisation process at risk.

As indicated earlier, debt was viewed as a threat to democratisation, however, with the benefit of hindsight, the threat was not to the consolidation process but to

the power of the government. Not denying the broader importance of democracy for countries which have suffered military dictatorship for years, it seems that the legacy of the dictatorship had left Alfonsín's government with limited economic policy choices. Thus, the two choices -to pay or not to pay the external debt- both promised serious difficulties.

Furthermore, Alfonsín was not merely faced with the contradictory demands of the IMF for economic stabilisation and domestic pressures for immediate improvements in living standards. He also had to contend with the concerns of Argentina's main economic groups over debt re-payment. Due to the dictatorship's nationalisation of the private debt, resources for the interest payments now had to be found through an adjustment of fiscal policy. This obliged Alfonsín to raise export taxes, a move which would be sharply opposed by Argentina's agricultural conglomerates. These economic groups, being internationally oriented, were of course concerned that Argentina not be isolated from the international economic system. However, when Alfonsín shifted the debt liability to fiscal policy, directly hitting these economic groups, with the prospect of higher taxes, the latter became more ambivalent towards government efforts to service the debt.

## *ii. The political side of inflation*

When the Radical government took office the external debt and the concentration of capital were the main features of an economy out of control with an inflation rate of 600 per cent for the last quarter of 1983, a fiscal deficit of 14 per cent of GDP, an external debt of 67 per cent of GDP, and international reserves of US\$ 1 billion while arrears with external creditors amounted US\$ 3.2 billion (Machinea, 1990, p. 12). The external debt was US\$ 44 billion while capital flight was estimated at US\$ 22.4 billion; hence, the latter accounted for no less than half of the debt (Dornbusch, 1989, p. 8).



Before analysing the government's economic strategy, let me briefly analyse the political side of the inflation phenomenon. Economically, inflation is understood as a distortion of economic variables. The 'monetarist' approach assumes the cause of inflation to be excessive monetarist expansion (Goldthorpe, 1978, p. 186). Other schools of monetarism (mainly followers of von Hayek's theories) understood inflation as caused by wage increases due to the pressure from organised labour. However, Goldthorpe's sociological analysis of inflation correctly states that inflation is the "particular manifestation, within a given historical context, of the social divisions and conflicts which such an economy tends always to generate" (1978, p. 197). Thus, inflation is the monetary expression of the distributional conflict of the society and of the "on-going changes in social structures and processes" (Goldthorpe, 1978, p. 195). In this sense, Argentina's high inflation represents the economic expression of the crisis of the state and its social relations.

As the following analyses show, the Radical government explained high inflation in terms of the high fiscal deficit and wage increases. The high fiscal deficit was mainly caused by the interest payments of the external debt, tax evasion, and state subsidies to the private industrial sector. Therefore, behind the fiscal deficit were Argentina's wealthiest sector and the international creditors.

The wage increases, the other economic cause of inflation represented the fight by workers to maintain their purchasing power. In this sense, the workers rather than producing inflation were reacting to it.

Thus, if we adopt Goldthorpe's analysis Argentina's inflation was an expression of its class conflict. As I analyse below, the government had greater difficulties reducing the fiscal deficit than preventing high inflation rates. Indeed, the government was able to temporarily control the inflation rate, which was finally unleashed by the expansion of the fiscal deficit.

This shows that the Radical government could not modify the military dictatorship's *disciplinamiento social*. The political side of inflation shows that in order to prevent high inflation the government should reduce the fiscal deficit by the non-payment of the external debt, a tax reform to avoid tax evasion, and the suspension of state subsidies to the private sector. That is to reverse the *disciplinamiento social* of the military dictatorship. As the Radical government did not reverse it, the last years of the democracy saw an exacerbation of the class conflict expressed by a hyperinflation process. Let me now analyse Alfonsín's first attempt to stabilise the economy.

### *iii. The Radical's attempt to stabilise the economy and resist the IMF*

Bernardo Grinspun<sup>26</sup> was appointed Minister of Economy and Raúl Prebisch economic adviser. The government defined its economic objectives as the reactivation of the economy, the increase of real wages and the elimination of inflation (Ambito Financiero, 2-1-1984, p. 9). Prebisch stated that there were two main problems: inflation, caused by the high fiscal deficit which had to fall from 14 per cent of the GDP to 4 per cent by the end of 1984, and the debt, which he defined as a political problem (Clarín, 17-12-1983, p. 8). Regarding the latter, in his first week in office, Grinspun announced that he had requested from Argentina's international creditors a period of six months in which to investigate the total amount of the external debt and to prepare a payment proposal (Clarín, 16-12-1983, p. 3). Enrique García Vázquez, President of the Central Bank, stated that this measure was a unilateral moratorium and that the government would distinguish between 'legitimate' and 'illegitimate' debt to decide its payment proposal (Schvarzer, 1986b, p. 39). This 'illegitimate' side of the debt was the capital flight favoured by the exchange rates mechanisms of the military dictatorship. As explained above, the



Radical government argued that Argentina did not have to pay this 'illegitimate' external debt.

Turning to the domestic economy, Grinspun presented his plan *-Lineamientos de un programa inmediato de reactivación de la economía, mejora del empleo y los salarios reales y ataque al obstáculo de la inflación* (Outline of an immediate programme for the reactivation of employment and real salaries, and an attack on the obstacle of inflation)- whose main objectives were to achieve an increase in the level of wages of 6-8 per cent in 1984, to reduce inflation to 50 per cent, to increase economic growth by 5 per cent, to reduce the public sector deficit by 10 per cent of GDP, to reduce public expenditure and to reduce interest rates (Clarín, 25-1-1984, p. 12). With respect to the external debt, this report argued that the main problems were the high cost of debt servicing which necessitated a renegotiation of terms. It also stated that Argentina had decided to meet its obligations and, in order to do this, the country 'needed the cooperation' of the creditor country governments since the debt, in its origins and nature, was a political problem (Clarín, 25-1-1984, p. 12). As said above, the debt was viewed as a political problem since a significant part of the debt was 'capital flight', and the debt, increased by a military dictatorship, had to be paid by a new democratic government. Therefore, the Radical government demanded 'cooperation' of the creditor country governments to distinguish the 'illegitimate' side of the debt, and to avoid a deepening of the economic crisis which could put the democratisation process at risk.

As early as January 1984, Alfonsín's policy towards the external debt negotiations became clear. The policy constituted three concurrent strategies. First, the Radical government suspended all payments on the principal of the debt and, consistently, delayed interest payments. Second, the government tried to negotiate the interest payments with the banks and the Paris Club although it had not achieved a prior agreement on the interest payments with the IMF. This was the 'cooperation' demanded from foreign governments; namely, their support for an alternative to the



IMF plan. Thirdly, Argentina participated at the Quito Conference held in January 1984 which was an effort to achieve a common front of Latin American debtors. At this Conference, Argentina insisted on the distinction between 'legitimate' and 'illegitimate' obligations, and that the negotiations should cover only the former (Latin American Weekly Report, 13-1-1984, p. 2).

The Cartagena Consensus of May 1984 -signed by Argentina, Brazil, Colombia and Mexico- was another effort to emphasise the political aspect of the external debt. The Consensus declared that external circumstances had exacerbated the Latin American situation. Of these circumstances, the increase of the US prime rate -the third increase in two months- and the protectionist measures of the US and the European Community were particularly debilitating to the economic situation of the debtor countries (Clarín, 27-5-1984, p. 2). The former increased the interest payments while the latter decreased the possibility of export earnings. Regarding the prime rate increase, Alfonsín underlined that the rise over the last two months added over US\$ 600 million to the country's external indebtedness. Thus, Argentina's ability to meet its international obligations were under severe strain. Alfonsín said "it is as if the (financial) centres had gone mad, but we will not pay usury. It would seem as if the developing countries were being attacked with a neutron bomb in reverse, which would leave men, women and other creatures alive, while destroying the nation's productive apparatus. This madness must be ended once and for all" (Latin America Weekly Report, 18-5-1984, p. 2).

The main decisions of the Cartagena Consensus were to pay the external debt and for this payment to proceed on a country-by-country basis (O'Connell, 1988, p. 373). Therefore, Latin America could not establish a unified 'debtor front' to press the international creditors for concessions, at least in the rescheduling of interest payments. The Latin American governments decided to negotiate bilaterally which meant that henceforth they would be competing among themselves. Therefore, the Cartagena Consensus, despite having organised periodical meetings between



governments, was not able to coordinate the negotiations between the governments and their international creditors. The Latin American governments believed that a negotiation on a country-by-country basis would give them more benefits. This was mainly the position of Mexico and Brazil, which as the largest debtors had a better level of bargaining than Argentina or Uruguay (O'Connell, 1988, p. 373). Thus, the strategy of converting the external debt into a political issue and achieving a common front of Latin American debtors failed.

Alfonsín's second strategy towards the external debt also failed. The main cause of his failure was the refusal of international creditors -the banks, creditor governments and the Paris Club- to begin a negotiation round without an agreement between Argentina and the IMF having been achieved. The agreement with the IMF meant, principally, that the Fund would control Argentina's economic strategy, imposing an economic adjustment program which would enable Argentina to service its debt. As explained above, the so-called 'Washington consensus' was an economic strategy to enable the debtor countries to pay the debt. A negotiation without such IMF agreement gave Argentina the opportunity to apply any type of economic strategy, which could risk future interest payments. The control by the IMF assured the payment of the debt, and thus, the banks, the creditor governments, and the Paris Club refused to begin a negotiation round with Argentina before it achieved an agreement with the Fund.

The Argentinian government's strategy of delaying interest payments and negotiations with the IMF achieved limited objectives. Although in the first eight months the democratic government did not obtain money with which to pay its creditors, it did obtain more time to pay its debt. Nevertheless, the main goal of Alfonsín's strategy was that, by delaying interest payments, Argentina could increase its low level of international reserves which went from US\$1 billion at the end of 1983 to US\$ 3.5 billion by mid 1984 (Latin America Weekly Report, 27-7-1984, p. 5). This gave Argentina a stronger position in the negotiation with its

international creditors since it did not need fresh money in the short-term. The government believed that if Argentina did not strengthen its position as far as possible, the attitude of the international creditors would become more implacable (Clarín, 26-2-1984, p. 11). In this sense, Alfonsín argued that Argentina would pay the debt "without accepting recessive recipes, because we (the Radical government) are committed to raising the workers' real wages" (Latin America Weekly Report, 13-1-1984, p. 3). This was the main element of the strategy: a tough initial position, realising the need to compromise later. Let me now explain the first negotiations with the banks which shows the tough early bargaining stance and Argentina's subsequent change.

#### *iv. Negotiating with the banks and the Fund*

Argentina had to meet interest payments to the commercial banks every three months. In March and June 1984, last-minute plans were arranged between the government and the banks. These arrangements were made due to financial aid from the governments of Brazil, Colombia, Mexico, Venezuela and the United States; therefore, Argentina did not use its international reserves for these payments<sup>27</sup>. For the incoming deadline of September, the Argentinian government changed its strategy. A round of negotiations with the IMF began in order to avoid the declaration of a *cesación de pagos* -suspension of payments- by the commercial banks, and to reach an agreement with them before September (Latin America Weekly Report, 17-8-1984, p. 10). In August 1984, an IMF report announced that Argentina had agreed with the Fund some objectives to be implemented in a future economic plan (Clarín, 12-8-1984, p. 2). This *communiqué* intended to loosen the negotiations with the commercial banks regarding the September-deadline interest payments. These interest payments had been refinanced since 1982, however, as a way to press Argentina to accede an IMF agreement which would oblige it to service its debt, the



commercial banks did not refinance them in September, rather they decided to renew these credits daily (Schvarzer, 1986b, p. 45). Argentina, then, paid US\$ 125 million to the banks (Clarín, 16-8-1984, p. 2). The banks decided to renew the credits daily since they distrusted Argentina's sudden decision to achieve an agreement with the IMF. By this time, it was clear that if Argentina did not begin to service its interest payments, a *cesación de pagos* (suspension of payments) would be declared by the banks. As The Economist (4-8-1984, p. 13) put it: "an agreement (between Argentina and the IMF) now seems possible some time next month, because the alternative for President Alfonsín is economic, followed by political, bankruptcy". Indeed, an exacerbation of the economic crisis was viewed as a threat to the consolidation of democracy since the crisis would provoke social unrest which had been, historically, the first step towards a military coup. In Clarke's (1990) terms, Alfonsín tried to prevent the economic crisis becoming a political crisis. An agreement with the IMF seemed to be the only solution to the economic crisis which would not undermine democracy. This strategy was also followed by other Latin American debtors countries.

Thus, Alfonsín's initial strategies towards the external debt failed: the Latin American countries did not organise a 'debtor front', the European and the US governments together with the commercial banks imposed an IMF plan to start negotiations with Argentina, and thus, Argentina could no longer maintain its strategy of delaying interest payments. It was, then, clear that, like Mexico in 1982, Argentina had to start negotiating with the IMF. Alfonsín's government tried to avoid the full implementation of an IMF adjustment program, since as he stated the government wanted to improve the workers' real wages. Moreover, as explained above, an IMF orthodox plan gives to the market the role of regulator of the economy. This was opposed to Radical Party ideology, which gives this role to the state (Alfonsín, 1992). However, as the attempt to resist the IMF failed, the government

had no way out other than negotiating with the Fund. Despite this, the Radical government did not implement an orthodox IMF plan.

The day of the first general strike, Grinspun affirmed that an agreement with the IMF would be necessary (Clarín, 3-9-1984, p. 1). After nine months, the Economics Minister had gone from rejecting the implementation of an IMF plan to reaching an agreement with the Fund. In September 1984, Alfonsín announced in New York that an agreement with the IMF had been reached (Clarín, 26-9-1984, p. 1). He also affirmed that the agreement facilitated negotiations with the commercial banks and the Paris Club (Clarín, 26-9-1984, p. 1). Alfonsín and his Economics Minister, after nine months in office, had changed their strategy towards the external debt negotiations.

The agreement with the IMF was based on a plan to reduce the rate of inflation -from its current annual level of 1200 per cent to 300 per cent and eventually 150 per cent-, a gradual elimination of price controls, a reduction of the public deficit from 8.1 per cent of GDP to 5.4 per cent by the end of 1985, and an increase in exports (Stiles, 1987, p. 70). However as early as January 1985, the IMF considered that the agreement had been broken due to the existence of a monthly inflation rate of 25 per cent (Machinea, 1990, table II.2).

Domestically, Grinspun's economic strategy to prevent inflation had also failed. He had assumed a Keynesian strategy, similar to that applied by the Radical government twenty years earlier. His strategy attempted to stimulate demand through an increase in real wages. He tried to prevent inflation through a gradualist approach by setting at 10 per cent the monthly rate of prices and wages adjustment, together with a larger adjustment for public utility rates and the exchange rate (Machinea, 1990, p. 13). As a consequence of these measures, there was an increase in prices, which, together with the indexation of wages on a monthly basis to preserve the purchasing power, pushed the inflation rate to a still higher level



(Machinea, 1990, p. 13). As Machinea concludes (1990, p. 13) "within the context of an easy monetary policy and a large fiscal deficit, full indexation resulted in a continuous acceleration of the inflation rate up to September 1984 (27.5 per cent)". The economic team believed that wage increases and 'cheap' credit would induce a rise in supply through the reactivation of 'idle capacity', and thus, stability and growth would be achieved (Canitrot, 1991, p. 131). However, the strategy failed since it did not take into account the profound modifications of the economy, namely, the concentration of capital, the burden of the external debt, the high levels of inflation, the high fiscal deficit and the powerful role of the financial sector (the so-called *patria financiera* -financial fatherland). Moreover, in the context of global capital, 'Keynesianism in one country' proved not to be a viable solution. Keynesianism, emphasising state management of the national economy, was overcome by the globalisation of capital (Radice, 1984). Grinspun's plan of implementing "a tougher monetary policy, together with the attempt to increase public utility rates and to devalue the exchange rate in real terms did not lead to a significant slowdown in the inflation rate and caused instead a sharp drop in economic activity" (Machinea, 1990, p. 14). Under Grinspun's strategy, the annual Consumer Price Index (CPI) was 688.0 per cent, and the Wholesale Price Index (WPI), 585.0 per cent (CEPAL, 1991). While the annual rate of price increase was 625 per cent in the last quarter of 1983, it reached 1080 per cent in the third quarter of 1984 (Torre, 1990a, p. 10). Thus, due to his incapacity to prevent increasing inflation rates, in February 1985, Grinspun resigned (Clarín, 19-2-1985, p. 14).

#### *v. New Economics Minister, new economic strategy*

The new Economics Minister, Juan V. Sourrouille was more an *Alfonsinista* (a follower of Alfonsín) than a Radical member. He was the author of a number of books on Argentina's economy<sup>28</sup>. He was considered by the Radical Party as an

outsider and a technocrat. Likewise, most of the men of the economic team were *Alfonsinistas*, notably Adolfo Canitrot, Under Secretary of Economic Coordination, José Luis Machinea, Under Secretary of Economic Policy, and from August 1986 President of the Central Bank, and Mario Brodershon, President of the *Banco Nacional de Desarrollo -BANADE-* (National Bank of Development). This would, later, cause some disagreements between the Radical Party and the economic team. However, initially, due to Alfonsín's powerful leadership and the success of the *Austral* Plan, the Radical Party, in general terms, supported the economic team.

As Planning Secretary, Sourrouille had presented a report, *Lineamientos de una estrategia de crecimiento económico 1985-1989* (Guides for an economic strategy for growth 1985-1989), whose main objectives were to improve investment in order to increase exports, and to transform the productive basis of the country focusing efforts on investment and exports (La Nación, 14-1-1985, p. 8). Sourrouille had recognised the external debt as a *condicionante* (constraint) on Argentina's development (La Nación, 14-2-1985, p. 8). According to him, due to this *condicionante*, Argentina had to increase its exports to service the debt. As this would transfer crucial resources, investment was needed to increase exports and bring in foreign currency reserves (La Nación, 14-2-1985, p. 8).

As Economics Minister, Sourrouille defined his objectives as the recovery of economic growth and the 'fight against inflation' (Ambito Financiero, 1-3-1985, p. 12). He confirmed that wages would be increased monthly by 90 per cent of the past inflation rate, the fiscal deficit would be reduced by controlling public expenditure, and Argentina would pay its external debt obligations (Ambito Financiero, 1-3-1985, p. 13). He stated the necessity to reform the tax system and the financial sector. Finally, he pointed out that the domestic market would expand because of the effect on demand from the increase of exports and private investment; if this did not occur, he argued, the domestic market would be hit by inflation and stagnation (Ambito Financiero, 1-3-1985, p. 18).



From now on, some measures were taken to prepare the ground for the launching of the *Austral* Plan: controls on industrial prices were made more flexible, public utility rates were increased, from April to June the *peso* was devalued against the dollar at a monthly rate of 34 per cent, and export taxes were increased (Machinea and Fanelli, 1988, p. 124). Nevertheless, the new economic team could not prevent increases in the CPI and the WPI. The former increased to 29 per cent in April before dropping to 25.1 per cent in May, and the WPI increased significantly, reaching 31.5 per cent in April and 31.2 per cent in May (Ambito Financiero, 8-1-1987, p. 6).

On the 26th of April, Alfonsín called for a popular demonstration to support democracy against threats of a new military coup. In his speech, he stated that there was a demand from the working class for wage increases, a demand for organising the economy by an adjustment policy, and a demand for economic growth. He defined this context as one of 'war economy' (La Nación, 27-4-1985, p. 12). He focused the economic problem on the high inflation rate and argued that the government would concentrate its efforts to prevent it. What Alfonsín called 'war economy' would be later defined as the economic reform of 1985: the *Austral* Plan.

Despite these 'introductions' to the *Austral* Plan, the essential element to 'prepare the ground' for the *heterodox*<sup>29</sup> shock was the negotiations with the IMF and the US government to obtain their support. In April, Sourrouille and Machinea went to the US to present the economic reforms to the IMF<sup>30</sup>. In May, an IMF staff member, Ted Dessa, went to Buenos Aires to meet Alfonsín to discover his decision regarding the implementation of the reforms. Alfonsín confirmed his decision to apply the Plan. Sourrouille also explained the reforms to the IMF member who finally confirmed the acceptance of the Plan by the Fund (Clarín, 16-6-1985, p. 14). This marked a 'u-turn' in the Radical government strategy. Before analysing

the new strategy, let me draw some conclusions on the first two years and the cause of the economic 'u-turn'.

*vi. A changing perspective: the relationship with the IMF*

After nine months in office, Alfonsín understood the constraints imposed by the international creditors upon his economic policy making process. As his Home Affairs Minister, Antonio Tróccoli, put it: "Argentina is condemned to twenty five years of constraints" (Schvarzer, 1986b, p. 45).

Although by delaying interest payments Argentina had achieved some goals, it was finally forced to reach an agreement with the Fund due to pressure from the commercial banks, the Paris Club and the US government. Alfonsín's strategy to avoid an IMF plan collided with the attitude of foreign governments and commercial banks. Indeed, they denied the possibility of achieving an agreement with Argentina if the country did not have a previous agreement with the Fund. As Ferreyra Aldunate, leader of *Partido Blanco* of Uruguay, put it, "all European countries have said to us *we will help you as soon as you achieve an agreement with the IMF*. This is true for all the European countries ... there is no alternative to the IMF. However, it is also true that this path *has no way out*"<sup>31</sup> (Schvarzer, 1986b, p. 42). This attitude, together with the pressure from the commercial banks for the interest payments of March, June and September 1984, put Alfonsín's government in crisis. By September, it was clear that Argentina had to pay in order to avoid the declaration of a *cesación de pagos* (payment suspension) from the banks. Some 'threats' made this risk clearer: Robert McNamara, Secretary of the Treasury of the United States, wondered "could you imagine what can happen to a President if his government was suddenly unable to import insulin for diabetics?" (Schvarzer, 1986b, p. 48). This was the kind of veiled 'threat' used to persuade Argentina's government of the 'benefits' of achieving an agreement with the IMF. Indeed, after nine months,



Argentina understood its domestic 'benefits': the first agreement with the IMF provoked the first general strike.

The September 1984 agreement marked the end of the government's strategy of resisting the IMF. Indeed, it was the starting point of the government's decision on the 'external debt dilemma'. The agreement signified that Alfonsín had finally accepted the rules of the IMF. Pressure from international creditors, mainly the commercial banks, showed that Argentina's new democracy had no solution other than to service its external debt. Alfonsín's strategy of resisting the IMF was condemned by the US government, European governments, and -of course- the commercial banks. By September 1984 Argentina was threatened by the commercial banks with the declaration of *cesación de pagos* (suspension of payments). The democratic government could not pursue its strategy of delaying interest payments. The 'external debt constraint' became evident: from now on Grinspun's gradualist approach to the economic crisis and economic growth had to be abandoned.

#### IV. Conclusion

During its first two years in office, the Radical government was unable to resolve the crisis of the Argentinian state. The government could not control the power of the trades union movement. It could not implement its own policies towards human rights violations. And finally, it could not resist an agreement with the IMF which defeated its initial economic strategy.

Grinspun's strategy was an attempt to avoid a 'monetarist' restructuring of the state and its class relations. However, it did not attempt to modify the *disciplinamiento social*, and, in this sense, it could not prevent high inflation rates. The Radical economic 'u-turn' -the launching of the *Austral* Plan- did not signal the

implementation of such 'monetarist' restructuring. But it did not fully rectify the legacy left by the military dictatorship. Thus, the *Austral* Plan also failed to prevent high inflation rates, and the Radical government, gradually, began to prepare the ground for a 'monetarist' restructuring. Therefore, as said, the military dictatorship constrained the democratic government which would see all its attempts to resolve the crisis of the Argentinian state defeated.

As a result of these defeats, the economic crisis was exacerbated. From now on the government began to be more worried about the economic situation than the political situation. While the first two years were dominated mainly by the 'democratisation' of trade unions, and human rights policies, subsequent years would be dominated by the 1985 economic reform and its failure.

However, regarding the main political objective of the government, that is the consolidation of democracy, the public judgement of the *Juntas Militares* was the basis for undermining the political power of the Armed Forces. Nevertheless, due to the exacerbation of the economic crisis, the human rights violations would become a secondary issue and therefore the government lost the necessary domestic support to confront the Armed Forces. In this sense, the government would be forced to concede in its policy towards human rights.

The economic crisis also strained the relationship with the trades union movement. The government attempted to control the trade unions by different strategies, all of which, the trade unions were able to block.

As the 1985 economic reform was the most important event of subsequent years, let me now turn to analyse it.



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<sup>1</sup> In Argentina military service is compulsory at the age of 18. It lasts between 12 and 16 months. Military service consists of three months of military training and later of any kind of service such as working as a waiter, driver, or secretary.

<sup>2</sup> Interview with Ernesto López, 1-12-1993, Buenos Aires.

<sup>3</sup> Interview with Andrés Fontana, 6-12-1993, Buenos Aires.

<sup>4</sup> Interview with Andrés Fontana, 6-12-1993, Buenos Aires.

<sup>5</sup> Interview with Ernesto López, 1-12-1993, Buenos Aires.

<sup>6</sup> In the Senate House there were 56 seats, 21 from the Peronist Party and the rest divided among the Radical Party and provincial parties such as the *Movimiento Popular Neuquino*, the *Pacto Autonomista-Liberal* from Corrientes province, and the *Partido Bloquista de San Juan*. There were 24 votes against Alfonsín proposal corresponding to the Peronist Senators and three Senators from the *Movimiento Popular Neuquino* led by Senator Elías Sapag (Clarín, 15-3-1984, p. 2).

<sup>7</sup> The appointment of Juan Manuel Casella, then a Radical Deputy, was viewed by Peronism as a triumph because the new Minister belonged to the conciliatory line of the Radical Party (Beliz, 1988, p. 169).

<sup>8</sup> Mainly the *Grupo de los 20*. The third Minister of Labour of the Radical government, Hugo Barrionuevo, belonged to this group which can be characterised as close to the CGT-Azopardo line. The inclusion of the *Grupo* in the *concertación* was due to the government's argument that the CGT was not representative of the workers.

<sup>9</sup> It is the lowest wage a worker can earn and is fixed according to the cost of a basket of goods considered necessary to the monthly consumption of a four-member family. Both, the basket and the wage, are calculated by the National Institute of Statistics and Census (*INDEC*).

<sup>10</sup> The constitution of the *Grupo de los Once* was mainly a consequence of the government's call for the *concertación*. The group became a coalition between employer organisations and trade unions against the political economy of the Radical

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government. It was formed by the CGT, the *Sociedad Rural Argentina* (Argentinian Rural Society), the *Confederaciones Rurales Argentinas* (Argentinian Rural Confederations), *Confederación Intercooperativa Agropecuaria* (Agrarian Confederation of Cooperatives), the *Unión Industrial Argentina* (Argentinian Industrial Union), the *Cámara de la Construcción* (Construction Chamber), the *Cámara de Comercio* (Chamber of Commerce), *Asociación de Bancos Argentinos* (Argentinian Banks Association), *Cámara de Actividades Mercantiles* (Chamber of Trading Activities), *Unión de Empresas Comerciales Argentinas* (Union of Commercial Organisations) and the *Confederación del Comercio, la Industria y la Producción* (Confederation of Trade, Industry and Production).

<sup>11</sup> This meant to exclude the first three months of 1985 when the inflation rate was 25.1 per cent, 20.7 per cent, and 26.5 per cent respectively (Machinea, 1990, table II.2)

<sup>12</sup> Interview with Adolfo Canitrot and José Luis Machinea, 19-10-1993 and 25-10-1993, respectively, Buenos Aires.

<sup>13</sup> There is an extensive bibliography on this issue, for instance, Stallings, B. and Kaufman, R. (1989), Bianchi *et al* (1985), Thorp, R. and Whitehead, L. (1987), Roett, R. (1984), Lessard, D. and Williamson, J. (1987), Williamson (1990) (1993), French-Davis *et al.* (1986), Nelson *et al.* (1989), Nelson (1990), Sachs (1989a) and (1989b), Balassa (1986), Remmer (1991), Fanelli *et al.* (1990) Solimano and Servén (1993), Hilt and Pastor Jr.(1993), and Haggard and Webb (1993).

<sup>14</sup> See Remmer (1991).

<sup>15</sup> Argentina's main creditor banks are Manufacturers Hanover, Citicorp, Morgan Guaranty, Chase Manhattan, Continental Illinois, Midland and National Westminster (Branford and Kucinski, 1990, p. 118).

<sup>16</sup> Interview with Juan Vital Sourrouille, 19-10-1993, Buenos Aires.

<sup>17</sup> For more details see Williamson (1990).

<sup>18</sup> This is the set of policies also named as the 'orthodox approach'. Orthodoxy is well defined by Stallings and Kaufman (1989, p. 2) as "market-oriented approaches ...



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that emphasise fiscal and monetary restraint, reductions in the size of the state sector, liberalisation of trade restrictions, and collaboration with creditors". An heterodox approach is defined as a policy where the state plays a more active role in regulation and investment decisions and more emphasis is placed on distribution and employment (Stallings and Kaufman, 1989, p. 2). For a detailed account of the differences see Nelson *et al* (1989) and (1990), Kahler (1990), and Haggard and Kaufman (1989).

<sup>19</sup> It has to be highlighted here that the New Political Economy implied a substantial debt relief. Paz Estenssoro argued that the economic situation was so severe that a period of complete moratorium on interest payments was required. For more details see Sachs (1988) and (1989a).

<sup>20</sup> For more details on the Bolivian case see Williamson (1990), Sánchez de Losada (1985), Stallings, B. and Kaufman, R. (1989), Bianchi *et al* (1985), Thorp, R. and Whitehead, L. (1987), Roett, R. (1984) Palermo (1990) and Sachs (1988) and (1989a).

<sup>21</sup> This 'illegitimate' side of the debt was the capital flight favoured by the exchange rate mechanisms of the military dictatorship. See Crystal (1994), Lessard and Williamson (1987), Pastor (1990) and Dornbusch and De Pablo (1988).

<sup>22</sup> Argentinian Central Bank, unpublished data.

<sup>23</sup> For the Peruvian case see Schydowsky (1986), Stepan (1978), Lowenthal (1983), Carbonetto (1987) and Sachs (1990).

<sup>24</sup> For an account of Alfonsín's foreign policy at the beginning of his presidential period see Russell (1987) and Escudé (1989).

<sup>25</sup> For more details on the relationship with Reagan's administration see Russell (1987) and Canitrot (1991).

<sup>26</sup> Bernardo Grinspun was Trade Secretary under Illia's presidency (Clarín, 10-12-1983, p. 3).

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<sup>27</sup> For more details on these negotiations see Schvarzer (1985) and (1986b), Stiles (1987), Smith (1989) and (1990), and Latin America Weekly Report (9-3-1984) and (6-7-1984).

<sup>28</sup> For instance Mallon, R. and Sourrouille, J. (1975) *La política económica en una sociedad conflictiva* (Buenos Aires: Amorrortu), and Sourrouille, J., Kosacoff, B. and Lucángeli, J. (1985) *Transnacionalización y política económica en la Argentina* (Buenos Aires: CET/CEAL).

<sup>29</sup> As said above, an heterodox plan relies more on government controls and guidance and less on the market mechanism which is the central characteristic of IMF orthodox plans. For a detailed account of the differences see Nelson *et al* (1989) and (1990).

<sup>30</sup> Interview with Juan Sourrouille, 19-10-1993, Buenos Aires.

<sup>31</sup> Italics in text



## Chapter 5

### The deepening of the crisis

1985 - 1987

#### Introduction

From 1983 to 1985, the Radical government saw all its attempts to resolve the crisis fail. The launching of the *Austral* Plan marked the beginning of a new strategy. From now on, the economic aspect of the crisis began to be more important since it intensified as inflation could not be contained. The *Austral* Plan was an attempt to resolve the economic aspect of the crisis which would allow the government to resolve its political elements. However, the early failure of the Plan frustrated this attempt.

The first military rebellion, however, showed that crisis would not be resolved, this time, with the seizure of state power by the Armed Forces. Nevertheless, the rebellion showed the constraints of Alfonsín's policies towards human rights violations. He could no longer afford a serious confrontation with the Armed Forces in a context of deepening economic crisis.

Finally, the government attempted to control the trades union movement by dividing it. However, it also failed in this attempt. The trade unions proved to be still powerful enough to block or modify state strategies.

This chapter is divided into four sections. The first section analyses the *Austral* Plan and the causes of its failure. It analyses to what extent the Radical government attempted to modify the dictatorship's *disciplinamiento social*. The second section describes the opposition of the trade unions to the *Austral* and the

government's attempt to, once more, control the labour movement. This time the Radical government attempted to control the trade unions by dividing them and by including a Peronist unionist in the Cabinet. The third section deals with the first military rebellion, analysing its causes and consequences. The reasons why the rebellion did not end in a military coup are analysed. Finally, the fourth section concludes by highlighting the reasons why the Radical government, despite having changed its strategy, was unable to resolve the crisis of the state.

### I. The *Austral* Plan

With the IMF's blessing, on the 14th June 1985 the President announced the implementation of the *Austral* Plan. He stated that the main objective of the economic reform was the 'fight against inflation'. Due to high inflation rates, gradualism was now ineffectual. He presented the plan as a profound reform of Argentina's economy (Clarín, 15-6-1985, p. 3). His Economics Minister explained that it rested upon three main pillars. First, a general wage and price freeze was decreed (with the exception of prices in flexible price markets such as meat, fruits and vegetables for which only maximum profit margins were fixed). Wages were increased by 23 per cent before the freeze in order to compensate for the price rises during the first half of the month. The exchange rate parity was set at 0.80 *austral* to 1 US dollar. Interest rates on deposits and loans were reduced from 28 per cent and 30 per cent per month, respectively, to 4 per cent and 6 per cent per month (Clarín, 15-6-1985, p. 4).

Second, the Plan aimed to reduce the fiscal deficit. The target was to decrease the fiscal deficit from its 1984 level of 12.8 per cent of GDP to 2.5 per cent of GDP by the second half of 1985. This would be attained through increases in the real



prices of public services, increases in export taxes, improvements in the collection of direct taxes, the implementation of a 'compulsory saving tax' paid by taxpayers in proportion to their income and wealth taxes paid in 1984, and a reduction in the Central Bank deficit due to the fall in nominal interest rates. Likewise, as a result of the fall in the inflation rate, the real value of collected taxes would increase. The fiscal deficit would be financed by external credit; no extra money would be issued to finance it (Clarín, 15-6-1985, p. 34).

Third, a new currency and the de-indexation of the economy were applied in order to prevent 'inertial' inflation<sup>1</sup> and the redistribution of wealth as a result of the sudden decrease of the inflation rate. The *austral* was the new currency (1 *austral* = 1000 pesos) and it would be revalued daily against the peso according to a conversion scale (Clarín, 15-6-1985, p. 34-35).

As the *Austral* Plan had been previously approved by the IMF and the US government, the reaction of Argentina's international debtors was quite positive. On the 22nd of July the government signed a new letter of intent with the IMF<sup>2</sup>. Argentina would respect the targets of the *Austral* Plan and the IMF would issue a US\$ 1.2 billion loan together with one of US\$ 470 million from the Treasury of the United States (Clarín, 25-7-1985, p. 3). These two loans were *the* sign of the approval of the Plan by the IMF and the US government.

An agreement was also reached with creditor banks concerning the 1984-1985 Financial Plan which had started to be negotiated under Grinspun's administration (Ambito Financiero, 28-8-1985, p. 1). Argentina would receive a credit of US\$ 2.2 billion in fresh funds, and would pay the arrears on interest payments which had been accumulated from February 1985 (Ambito Financiero, 28-8-1985, p. 1). A timetable was agreed for the gradual repayment of matured debts from 1982 to the end of 1985. For the first time since the beginning of the debt crisis, Argentina would be up to date in its interest payments by the end of

November 1985 (Stiles, 1987, p. 76). These commitments ensured the necessary external financing and the essential political support from the IMF, the commercial banks, the European governments and the US government to enable the successful launching of the *Austral* Plan.

The initial effects of the *Austral* Plan were much better than the government expected<sup>3</sup>. The inflation rate for consumer prices fell from 30.5 per cent in June to 6 per cent in July and again to 3 per cent in August; and for wholesale prices from 42 per cent to -0.9 per cent, and to 1.5 per cent, respectively (Ambito Financiero, 8-1-1987, p. 6). The fiscal deficit decreased from 8.3 per cent of GDP in the first half of 1985 to 2 per cent in the second half (Machinea, 1990, p. 27). The fiscal revenue rose from 23 per cent of GDP to 28 per cent as a result of the automatic increase in the real value of tax revenues, the heavier taxes on exports and fuel, and the 'forced saving' system mentioned above (Machinea, 1990, table II. 7).

A significant improvement in the balance of payments was another result of the Plan. The current account and balance of payments deficits fell from US\$ 2390 million and US\$ 1744 million to US\$ 953 million and US\$ 556 million, respectively. International reserves increased by US\$ 2 billion between June 1985 and the end of the year (Machinea, 1990, p. 41).

A slight upturn in the economy took place during the last quarter of 1985 and gathered pace in 1986. The amount of idle capacity in the industrial sector fell from 32 per cent in the second quarter of 1985 to 23 per cent by the second quarter of 1986 (Machinea, 1990, p. 28). In the last quarter of 1985 overall seasonally adjusted GDP increased over 4 per cent and industrial output rose by 13 per cent (Machinea and Fanelli, 1988, p. 136). In 1986 the increase in GDP was 5.7 per cent. Likewise, in 1986 fixed gross investment increased by 11 per cent, this rise being led by purchases of productive equipment which rose over the previous year by 16.7 per cent (Machinea and Fanelli, 1988, p. 138).



Political measures however, undermined the economic reform. In October pressures for wage increases from the Armed Forces distorted the economic strategy. ~~As said above~~, from April the three *Juntas Militares* of the last dictatorship were on trial for human rights violations. In order to avoid another confrontation with the Armed Forces, Alfonsín suggested to his economic team a wage increase for the military<sup>4</sup>. The Radical government decided to increase pensions by 15 per cent and wages of Armed Forces personnel by 25 per cent (Machinea, 1990, p. 33). To avoid presenting these measures as a special concession to the Armed Forces a general wage increase of 5 per cent was established together with an increase of 25 per cent for teachers (Machinea, 1990, p. 33). These increases were, undoubtedly, political measures ahead of the legislative elections to be held in November 1985. From January 1986 wages increased by 5 per cent and private companies were authorised to grant up to a further 5 per cent against increases in productivity (Machinea, 1990, p. 33).

As explained above, one of the main pillars of the *Austral* Plan was a general wage freeze. This, together with the de-indexation of the economy, was applied in order to prevent 'inertial inflation'. These wage increases contradicted the basis of the Plan. The increases would fuel 'inertial inflation'. However, Alfonsín, aware of the unrest within the Armed Forces due to the public judgement of the *Juntas Militares*, preferred to sacrifice economic stability to political concerns<sup>5</sup>. The wage increases also pushed up government expenditure and the fiscal deficit. Thus, in November 1985, the IMF stopped the disbursement of a US\$213 million installment because Argentina had not met the agreed fiscal target: the public sector deficit was over 4.5 per cent of GDP instead of the agreed 3.6 per cent. Argentina had to start new negotiations with the IMF (Machinea, 1990, p. 42).

These wage increases transgressed the 'monetarist' approach, since the Radical government was unable to control monetary expansion. Due to this, the IMF

withdrew its support of the *Austral* Plan. The Radical government had different objectives from the Fund. Alfonsín's priority was to preserve political -rather than economic- stability. Thus, the government needed to regulate the economy, contradicting the Fund's 'monetarist' preferences.

As said, the main causes of these wage increases were the public judgement of the *Juntas Militares* and the approaching legislative elections. The November legislative elections were viewed by the government as a test of support for its economic policy<sup>6</sup>. The ruling party, *Unión Cívica Radical*, won in 20 of the 24 electoral districts. It obtained 43 per cent of the total vote cast while the Peronist Party obtained 34 per cent. The Radical Party gained 1 parliamentary seat, the Peronist Party lost 8, the Intransigent Party (moderate left wing) won 3, and the *Unión del Centro Democrático* (right wing) won 1 (Clarín, 6-11-1985, p. 40).

At the beginning of 1986, some indicators were suggesting that the economic stabilisation achieved due to the implementation of the *Austral* Plan was beginning to weaken. From December to March, the CPI rose by 3.2 per cent in December, 3 per cent in January, 1.7 per cent in February and 4.6 per cent in March; the WPI went from 1 per cent in December, 0 per cent in January, 0.8 per cent in February, to 1.4 per cent in March (Ambito Financiero, 8-1-1987, p. 6). Likewise, nominal wage increases granted by the private sector were generally higher than the official guidelines. In addition, by March 1986, the real exchange rate rose against the dollar by more than 20 per cent (Canavese and Di Tella, 1988, p. 175). The October wage increases were viewed as the main cause of the acceleration of the inflation rate, mainly because they provoked a rise in the fiscal deficit and thus the government had to print more money<sup>7</sup>.

To prevent further increases in the inflation rate, in February 1986, a second phase of the *Austral* Plan was announced. Alfonsín described it as a phase of growth with stability (Clarín, 7-2-1986, p. 4). In his speech, he referred to the



trade unions requirement of a unilateral moratorium on the external debt. For him, it was wrong to believe that resources from foreign trade could be redirected to domestic development instead of being used to pay debt interest. With a moratorium these resources would disappear since they came from Argentina's foreign trade with those who were also its creditors. If Argentina transgressed the rules of the international system, its foreign trade would decline, and thus, no resources could be invested for domestic growth (Clarín, 7-2-1986, p. 5). Alfonsín argued that the Latin America situation was the consequence of an unjust international economic order. The decline in the terms of trade, and the increase in interest rates worsened the situation of Latin American countries. He explained that this was due to the industrialised countries 'egoism', condemning the underdeveloped countries to poverty and stagnation. He demanded from the industrialised countries the reduction of interest rates and the elimination of trade discrimination (Clarín, 7-2-1986, p. 38).

In his speech, Alfonsín was justifying his economic strategy and his acceptance of the IMF plan and arguing that most of the reasons for Argentina's economic crisis were found in the effect of the international economic system. Alfonsín implied the constraint of the external debt. He pointed to the choice between servicing the debt or declaring a moratorium, and declared the intention of his government to pursue the former. To justify this view, he emphasised that no government had declared a moratorium without incurring substantial costs. By explaining the restrictions on Argentina's foreign trade, Alfonsín indicated Argentina's low bargaining leverage with international creditors. He also recognised the negative impact of some measures over which his government had no control. Alfonsín had communicated to the population the constraints upon Argentina's economic growth.

Sourrouille subsequently explained that the objective of the new stage was to ratify and deepen the *Austral* Plan through the 'rationalisation' of the state apparatus

(mainly by privatising public enterprises), industrial regeneration, and the reduction of export taxes (Clarín, 7-2-1986, p. 2, 38-39). The Economics Minister recognised the decline in real wages over the last year and awarded a compensatory 5 per cent increase (Clarín, 7-2-1986, p. 2). He stated that the interest payments on the debt amounted to 5 per cent of GDP, and that the tax reform and the 'compulsory saving' scheme were implemented to finance the interest payments. These measures were based on the nationalisation of the private debt. The Minister explained that as the state has to service the private debt, these measures, directed against the wealthiest sector of the population, were a trade off for the nationalisation of the debt of 1982 (Clarín, 7-2-1986, p. 38). Sourrouille argued that 1986 would be a year of growth with stability. In order to overcome the stagnation of the economy and the constraint of the debt, the solution was to expand exports and investment. Export taxes were reduced to promote exports. He also announced a privatisation plan which included *Somisa*, *Petroquímica General Mosconi*, *Petroquímica Bahía Blanca* and *Petroquímica Río Tercero* (steel and petrochemical industries). These measures had to be approved by the Congress. Finally, he agreed with Alfonsín over the diagnosis of the crisis: the extraordinarily high interest rates together with the decline in terms of trade (Clarín, 7-2-1986, p. 39).

The tax reform and the 'compulsory saving' scheme were partially implemented since the government never really fought against tax evasion which was one of the main causes, together with interest payments on the external debt, of the high fiscal deficit (Dornbusch and De Pablo, 1988, p. 156). Therefore, these measures did not have a significant impact. Moreover, the government decided to reduce export taxes benefiting the exporters, who, in Argentina, constituted a large part of the wealthiest sector. Therefore, while the government was taking resources from the wealthiest sector of the population, it was also assisting them through the reduction of export taxes. Thus, ultimately the tax reform (and the 'compulsory



saving' scheme), a trade off for the nationalisation of the private debt, was a 'dead letter'.

The February 1986 measures, like the *Austral* Plan, did not attempt to change the restructuring of social relations which had been achieved by the military dictatorship. In fact, privatisation had been an objective of the dictatorship itself. The objective of privatisation, as Sourrouille expressed, was to reduce government expenditures and to improve productivity levels (Clarín, 7-2-1986, p. 38). However, these enterprises were not loss-making. The petrochemical and steel industries, both private and public (but especially the former) were one of the most dynamic sectors (Ostiguy, 1990). Therefore, in privatising them the government would have lost resources. It would also have provoked an even higher concentration of capital, since the most likely buyers were the GEN (Ostiguy, 1990). In fact, the privatisation plan was not implemented due, in large part, to the opposition of the Peronist Party in Congress.

#### *i. The failure of the Austral Plan*

In April 1986, nine months after the launching of the *Austral* Plan, Sourrouille announced several modifications to the strategy. The main change was the suspension of the wage and price freeze ('defreezing'). Rigid price controls were replaced by a new scheme of 'administered' prices, wherein realignments would be accompanied by changes in costs. Nominal wages in the private sector could be adjusted within a band determined by the government. Public utility rates would shift in accordance with predetermined increases. In order to maintain the exchange rate value in real terms, exchange rate variations would be set in terms of a crawling peg; the exchange rate was, therefore, semi-fixed between two limits determined by the government (Clarín, 5-4-1986, p. 4). The *austral* was devaluated 3.6 per cent against the dollar; there was an increase of 6 per cent in

public services tariffs, and a general increase in wages by 5 per cent (Ambito Financiero, 7-4-1986, p. 1).

'Administered' prices supposed a degree of negotiation with trade unions and employers organisations. However, the Radical government had, of course, been unable to negotiate with these sectors during its first years in office. There had been an endless confrontation, mainly with trade unions, against the government's economic strategy. Therefore, the policy of 'administered' prices assumed a level of cooperation between the government, trade unions and employers organisations, which was over ambitious (Torre, 1990a, p. 16). Moreover, the 'administered' prices policy and the gradual public price increases implied the end of the original philosophy of the *Austral* Plan since these measures re-established indexation mechanisms which would fuel 'inertial inflation' (Canavese and Di Tella, 1988, p. 163). The Radical government gradually began another 'u-turn' to resolve the economic crisis. However, its new 'u-turn' could not prevent the rise of the inflation rate.

Nominal wages in the industrial sector increased 18 per cent in the second quarter of 1986 and 16.5 per cent between July and August. In public enterprises the real wage increased 8.7 per cent between the third quarter of 1985 and the third quarter of 1986, and in the banking sector by 20 per cent in the same period (Canavese and Di Tella, 1988, p. 175). These increases, and an increase in aggregate demand, were understood as the cause of the acceleration of inflation (Canavese and Di Tella, 1988, p. 175). The CPI was 4.7 per cent in April, 4 per cent in May, 4.5 per cent in June, 6.8 per cent in July and 8.8 per cent in August. The WPI was 3 per cent in April, 2.7 per cent in May, 4.6 per cent in June, 5.1 per cent in July and 9.4 per cent in August (Ambito Financiero, 8-1-1987, p. 6).

A new set of anti-inflationary measures was announced in late August which included an increase of 3 per cent per month in public utility rates and the exchange



rate in order to meet the inflation target. The exchange rate was indexed and public service prices were 'over-indexed'<sup>8</sup> to help public enterprises and the Treasury solve the fiscal problem. Real interest rates began to increase steadily from 0 per cent in September to 5 per cent per month in December. Another devaluation of the *austral* was implemented, 3.1 per cent against the dollar. In August the *austral* had been devaluated six times by a total of 12 per cent. By the end of the month the official exchange rate was US\$1=1.13 *australes*, and for the black market dollar, 1.20 *australes* (Clarín, 30-8-1986, p. 2).

As a result of the August economic measures the inflation rate fell between October and December. The CPI in September was 7.2 per cent; in October, 6.1 per cent; in November, 5.3 per cent; and in December, 4.7 per cent. In these months the WPI was 6.8 per cent, 5.3 per cent, 4.9 per cent, and 3 per cent, respectively (Ambito Financiero, 8-1-1987, p. 6).

Industrial activity declined in December 1986 to August 1985 levels reducing tax revenues. Likewise, the terms of trade deteriorated by almost 22 per cent during 1985 and 1986. As a result, there was a fall in the 1986 trade surplus which became a US\$ 2.5 billion current account deficit (Ambito Financiero, 13-1-1987, p. 18). All this contributed to an increase in the fiscal deficit which went up to 9 per cent of GDP by the last quarter of 1986 (Machinea, 1990, p. 60). Despite all these negative effects, from September 1985 to September 1986 GDP rose by 11 per cent, industrial output by 26 per cent, and investment in machinery and equipment by 35 per cent. In the same period the inflation rate ran at 50.1 per cent (Smith, 1990, p. 14).

At the beginning of 1987, new agreements with the IMF were reached. The Fund granted Argentina a US\$ 1.35 billion standby until March 1988. Due to Argentina's losses from the fall of international prices for agricultural products a compensatory financing facility of US\$ 480 million was granted. Argentina's target

was to reduce the fiscal deficit to 3 per cent of GDP and inflation to 40 per cent. The World Bank also decided to lend Argentina US\$ 2 billion for the period 1987-1988 for a programme of growth and structural changes such as privatisations, the final works of the hydroelectric central *Yaciretá*, and a power distribution project. Likewise, Argentina presented its proposal for a 1987 Financial Plan, which was approved by the Committee of Banks. The Plan determined the refinancing of US\$ 29500 million. A new agreement was also reached with the Paris Club which re-scheduled US\$ 1462 million (Ambito Financiero, 13-1-1987, p.1-2).

In its letter to the Fund, the government recognised that the April measures had been inflationary. The report stated that the deficit of the balance of trade had increased from US\$ 950 million in 1985 to US\$ 2650 million in 1986. This was due to the decline of the terms of trade and the surge in imports because of the reactivation of domestic activity. According to the government's estimations, the arrears of US\$ 500 million with the Paris Club would be paid by the 15th June 1987. The external debt would increase by US\$ 2.7 billion in 1987, amounting US\$ 51.5 billion. Finally, the government declared that the steady growth of the GDP and investment were essential elements of its economic strategy and that *this growth was necessary to facilitate the external debt payments*<sup>9</sup> (Ambito Financiero, 13-1-1987, p. 18).

The government aimed to achieve economic growth to service the external debt. The Radical government had now made a full 'u-turn' from its initial objectives. Alfonsín had argued, in 1984, that Argentina would pay the debt "without accepting recessive recipes, because we (the Radical government) are committed to raising the workers' real wages" (Latin America Weekly Report, 13-1-1984, p. 3). However, in reality three years later, real wages had fallen. From a base index 1986=100, real wages in the private sector went from 115.83 in 1984 to 92.06 in 1987, and in the public sector, from 119.51 to 92.96 (Banco de la República Argentina, 1992, table 8.A). In order to avoid a recessive program, the Radical



government did not implement an IMF plan. Neither, however, did it change the economic structure implemented by the military dictatorship, and thus it did not improve the workers' situation. Because of the failure of Grinspun's strategy to prevent high inflation, and of the pressure from international creditors to apply a set of policies which enabled interest payments, the Radical government could not change the economic structure formed by the dictatorship.

## *ii. The Australito*

In its attempt to control the economic situation, on February 1987, the government introduced, once again, a price and wage freeze (Ambito Financiero, 26-2-1987, p. 1-2). The new plan -the *Australito*- contained three main objectives: to improve the position of the Argentinian economy in the international system, to reform capital markets, and to restructure and privatise public companies. The price and wage freeze of the *Australito* lasted until the end of June. Before the freeze, as a partial compensation for past inflation, a wage increase of 3 per cent was granted, on top of the 13 per cent for the private sector and the 9 per cent for the public sector already agreed for the first quarter of the year. Likewise, before the freeze, public tariffs rose by 2 per cent and the *austral* was devalued by 6.6 per cent against the dollar. The *Australito* determined that the exchange rate would be frozen during March and April, while in May and June the *austral* would be devalued by 2 per cent against the dollar (Ambito Financiero, 26-2-1987, p. 1-2).

In the first half of 1987 the inflation rate was above its annual projection. In June the *Australito* was abandoned, mainly because of its unpopular wage and monetary policies. In this month the devaluation of the *austral* was greater than expected, the value of the dollar rose by 10.2 per cent overtaking the envisaged rate (Latin American Weekly Report, 9-7-1987, p. 9).

Sourrouille announced some new measures, such as the elimination of export taxes on wheat and other crops, the privatisation of most public companies, the assumption of public companies' debts by the Treasury, and an increase of 10 per cent in transport fares and petrol prices (Clarín, 21-7-1987, p. 2-3). By July the inflation rate reached double digits, 11.9 per cent (Smith, 1990, p.22). The gap between the official and the parallel dollar exchange rate was increasing; in August it reached 43.36 per cent. There were mini-devaluations of 9.72 per cent in July and 14.95 per cent in August (Manzetti and Dell'Aquila, 1988, p. 21).

In July the government signed a new standby agreement with the IMF which imposed the correction of relative prices through increases in public utility rates and the exchange rate. In return, the IMF agreed to disburse US\$ 1.04 billion, including the first payment of the US\$ 1.5 billion credit approved the previous February (Clarín, 11-7-1987, p. 2). In the agreement, the government recognised that it did not reach the targets of the last agreement of January 1987 since the inflation rate was greater than estimated, the balance of payments was deeply in deficit, and the fiscal deficit was higher than expected. The objectives of the new agreement were to implement a fiscal adjustment, a restrictive monetary policy and to limit to 5 per cent wage increases for the third quarter of the year. The report also stated that the government would further open up the economy. The control of the IMF over Argentina's economy was increased, as now, the Fund would control the development of strategies every two months (Clarín, 11-7-1987, p. 2). These new measures constituted a deepening of the 1976-1981 economic structural reform. They were also an attempt to reduce the role of the state as regulator of the economy. The Radical government, with IMF supervision, was preparing the ground for the full implementation of a 'monetarist' restructuring of the state and its social relations.



In September 1987 elections were held to renew half of the Chamber of Deputies, all the provincial governorships, provincial Congresses and municipal authorities. As with all the elections in a democratic system, the September elections were a test of support for Alfonsín's policies. The Radical Party obtained 37.4 per cent of the total vote cast while the Peronist Party reached 41.4 per cent (Clarín, 9-9-1987, p. 12). The Radical Party lost its majority in the Chamber of Deputies. It also lost all but two (Córdoba and Río Negro) of its seven governorships (Clarín, 8-9-1987, p. 8-9). The biggest loss was in Buenos Aires province (one of the largest districts in Argentina). The Peronist Party won sixteen out of twenty two governorships (Clarín, 8-9-1987, p. 8-9). The September elections showed that Alfonsín had lost political credibility and support.

### *iii. The reasons behind the Austral failure*

Analysing the failure of the *Austral* Plan, one conclusion to be drawn is that the plan was insufficient to achieve a durable stabilisation. The *Austral* Plan, after having prevented the hyper-inflation process, did not have a well defined second stage<sup>10</sup>. The plan gave Alfonsín's administration a significant opportunity to bring down inflation but this period was not used to consolidate the deflation. The lack of fiscal discipline was one important cause of the failure of the *Austral* Plan, and was one of the reasons why inflation accelerated.

The measures taken by Sourrouille's economic team did not go to the core of the fiscal question. One of the main factors here was the tax system and tax evasion. In 1985, corporation taxes represented 1 per cent of GDP. Only one and a half million inhabitants are registered as taxpayers. Less than one third presented the declaration of their obligation to pay tax and less than one per cent of the registered taxpayers declared their obligation to pay some kind of tax. Moreover, 84 per cent of

the total income of VAT and corporation tax was paid by just 6 per cent of the registered taxpayers (Dornbusch and De Pablo, 1988, p. 156). Likewise, there are a huge variety of authorised exemptions especially established through industrial subsidies<sup>1 1</sup>. The *Austral* Plan did not implement any significant change in the tax system nor improve the system of tax collection.

The Plan also collapsed because of a negative external shock. The decline in the terms of trade was regarded as having been particularly detrimental<sup>1 2</sup>. From an index of 100 for 1980, the terms of trade were 98.8 in 1984, 91.4 in 1985 and 79.9 in 1986 (World Bank, 1988). Despite a record 43 million tons of grain exports in 1985<sup>1 3</sup> (Clarín, 7-2-1986, p. 39), the fall of the terms of trade led to a deficit in the trade account. Due to an increase in productivity as a result of the positive effects of the Plan, there was an increase in imports which provoked a decline in the surplus on the trade account. Both, the decline in the terms of trade and the increase of imports, provoked a fall in the surplus on the balance of trade. In 1985, the surplus on the balance of trade was US\$ 4315 million; in 1986, US\$ 1555 million; and in 1987, just US\$ 257 million (Fanelli and Frenkel, 1990, p. 196). The international prices of agricultural products were 20 per cent lower in 1987 than in 1985. The effect of the deterioration in terms of trade from 1985 to 1987 amounted to 3.4 per cent of the GDP, accounting for almost 50 per cent (US\$ 1900 million) of the reduction in the balance of trade surplus for this period (US\$ 4500 million)(Machinea, 1990, p. 64). In addition, the fall in international agricultural prices was the main factor behind the reduction of export taxes, which contributed to an increase of the fiscal deficit. These taxes were 1.93 per cent of the GDP during 1985 (2.18 per cent during the second semester) and only 0.32 per cent in 1987 (Machinea, 1990, p. 64).

The main problem of the *Austral* Plan was that its objectives were limited. Its concern was to prevent hyperinflation, and it did not propose a plan of action once this had been achieved. However, while the Plan prevented hyperinflation, it could



not permanently prevent the acceleration of the inflation rate. The main cause for the failure of the *Austral* was its policy ambiguity. It neither restructured the main features of Argentina's economy, nor attempted to deepen them. As an example, the Plan attempted to reduce the fiscal deficit without changing the main causes of it: the interest payments of the external debt, tax evasion, and a high variety of government subsidies to the industry -most notably tax exemptions. This was also the cause of the existence of high inflation rates.

After the failure of Grinspun's strategy and the *Austral*, the government realised that economic adjustment, the implementation of a 'monetarist' approach, might be the only tool to resolve the crisis<sup>14</sup>. However, Alfonsín did not want to 'make the adjustment' if this implied that most of its cost would be borne by the working class (Canitrot, 1991, p. 13)<sup>15</sup>. Nevertheless, as the government ran out of alternatives, it began to prepared the ground for a full implementation of economic adjustment.

The failures of the Radical government to resolve the economic crisis exacerbated its confrontation with the trade unions. Let me now analyse the trade unions reaction towards the *Austral* Plan.

## II. The relationship with the unions in the context of the *Austral*

With the announcement of the *Austral*, the government abandoned its *concertación* attempt. Indeed, while the *concertación* intended to achieve an agreement between the government, the trade unions and business organisations on economic and social policies, the *Austral* Plan was unilaterally implemented by the government.

As a response to the launching of the *Austral*, the CGT published a document entitled "Defending production and employment in order to defeat inflation" (*Defender la producción y el trabajo argentinos para derrotar la inflación*). This document was known as *Los 26 puntos* (The 26 issues). In the document, the CGT presented an alternative economic policy whose main instruments were: a 'unilateral moratorium' on the interest payments of the external debt, the re-organisation of the financial market, the nationalisation of bank deposits, a tax reform, the promotion of exports and import substitution development, the re-activation of public investment, a promotion of private investment, the defense of democracy, an increase of the education budget, and the construction of houses (Beliz, 1988, p. 228-233). From now on, the CGT would permanently demand the implementation of this economic strategy in order to achieve economic growth. The CGT's document also called for a new general strike, against the implementation of the *Austral*, to be held on the 29th August to be followed by a social demonstration (Ambito Financiero, 30-8-1985, p. 1).

In July 1985 the government created the Economic and Social Conference (*Conferencia Económica y Social -CES*) whose objectives were similar to those of the *concertación* attempt. Its first meeting was held in August -before the general strike- and was attended by the President, the Ministers of Economy, Labour, Home Affairs and Welfare, three members from the UIA, one from the *Confederación General de la Industria*, one from the *Cámara Argentina de la Industria*, and five members from the CGT (Gaudio et al, 1990, p. 139). As its predecessor, the CES became an ineffectual talking shop on percentages and could not avoid the organisation of strikes.

Indeed, although the November 1985 election gave the government the impression that it had general support, by this time, important groups of workers were holding 'struggle plans'. The metallurgical union (UOM), the construction



workers (UOCRA), the textile workers (AOT) and the railway unions (*La Fraternidad, Unión Ferroviaria, Asociación de Señaleros y Jerárquicos*) were pressing for wage increases through national strikes (Latin American Weekly Report, 13-12-1985, p. 4).

As a result of the acceleration of the inflation rate at the beginning of 1986 - which went, as said, from 3.2 per cent in January to 4.6 per cent in March- the government decided that the CES would be the framework for wage negotiations which would be held sector by sector with the commitment that any increase would not be transferred to price rises. The government estimated an increase of about 6 or 7 per cent. In the negotiations the CGT asked for a general wage increase of 28 per cent, the employers accepted this increase with the condition that they be allowed to transfer it to price rises. The government, however, accepted no more than a 7 per cent increase for the lowest wages. Once again, as during the *concertación* attempt, the CGT left the CES and called for a general strike to be held on the 24th of January (Clarín, 7-2-1986, p. 9). The CGT required an economic emergency plan to promote 'growth with social justice'. It stated that the external debt was unpayable and that Argentina had to service the debt in accordance with its capability (Clarín, 7-2-1986, p. 9).

The February 1986 measures were rejected by the CGT since the government, after recognising the decline in real wages over 1985, gave a compensation of 5 per cent while the decline of real wages was 3 per cent for the private sector and almost 10 per cent for the public sector (Banco Central de la República Argentina, 1992, table 8.A). Against the February 1986 measures, the CGT called for a general strike to be held on the 25th of March for a period of twelve hours (Fraga, 1991, p. 25).

The April 1986 measures were criticised by the SRA. During 1986 relations between the agricultural sector and the government deteriorated. The agricultural

sector viewed itself as the real 'loser' of the *Austral* Plan, due, mainly, to the export taxes and the decline in the terms of trade. Regarding the new set of measures of April 1986, Guillermo Alchourón, president of the SRA, complained about the secondary role given to agriculture compared to the industrial sector. He declared that the farmers were disappointed with this second phase of the *Austral* Plan because it did not include any measures for the agricultural sector. He argued that the plan did not have the right approach to the promotion of the sector which actually generates Argentina's wealth. Alchourón criticised the government's promotion of industrial exports, while the agricultural exports were subject to an export tax of around 32 per cent (Acuña, 1990, p. 37). In that year agricultural production contracted by 2.8 per cent. As a result of this discrimination against the agricultural sector, 1986 was characterised by *Jornadas de Protesta Agropecuaria* -days of agricultural protests- organised by the SRA, CONINAGRO, FAA and CRA. The protests involved farmers coming from the provinces to Buenos Aires, blocking traffic on national routes, organising lock-outs and demonstrating against the government in *Plaza de Mayo* (Clarín, 22-4-1986, p. 9).

After the announcements of the April 1986 measures, a new round of negotiations on the framework of the CES started. Once again the main discussion focused on the extent of wage increases. Finally, the government decided the percentage independently and applied it by decree. The CGT's response was to call for the sixth general strike for the 13th of June (Gaudio *et al*, 1990, p. 153). The four strikes mentioned had total adherence in the industrial sector and partial in the tertiary sector (Fraga, 1991, p. 25).

#### *i. Alfonsín's new strategy*

By this time, Alfonsín started to implement a new political strategy in order to neutralise the CGT's opposition. In order to weaken the CGT, he supported wage



negotiations between trade unions and employers. Indeed, these negotiations attempted to undermine the role of the CGT, as the peak organisation, which represented all trade unions in its wage negotiations with the government. The most important event was lead by the metallurgical union (UOM). Its General Secretary, Lorenzo Miguel, demanded a wage increase over the band determined by the government. The private sector, under pressure from the government, which did not approve the transfer of wage increases to price rises, did not grant the increase. After this refusal, the UOM started an indefinite strike which represented a loss of 1.5 per cent of GDP. Sourrouille himself eventually authorised the private sector to transfer the costs of the wage increase to price rises. After 33 days of the strike, the agreement determined a wage increase of 48 per cent which would be paid in different steps (Gaudio *et al*, 1990, p. 154). This event was significant because it showed the continuing weakness of the government *vis-à-vis* the trade unions<sup>16</sup>. In order to avoid social conflict, the government compromised its economic objectives. To transfer the costs of wage increases to price rises fuelled inflation. Moreover, historically, the struggle of the UOM and its results was a test case for other trade unions. Therefore, Alfonsín's strategy to isolate the CGT and negotiate with trade unions threatened the survival of his own economic plan. By August 1986 the government had approved over 50 agreements for wage increases (Latin American Weekly Report, 14-8-1986, p. 5).

Despite Alfonsín's new strategy, the CES negotiations continued. In this framework, the CGT mainly demanded a general wage increase. Due to the failure of these negotiations, the CGT called for a general strike on the 9th of October and on the 26th of January 1987. Both strikes had total adherence in the industrial sector (Fraga, 1991, p. 25).

By this time the CGT was organising its first delegates congress for ten years. Under the dictatorship, the CGT ran with an informal leadership. Once the democratic government took office, the CGT started to organise its internal 'normalisation' but



this was postponed due to internal struggles. The congress eventually took place on the 7th of November and the General Secretary, Saúl Ubaldini, retained his post (Gaudio *et al*, 1990, p. 131).

After the January strike, the government tried to gain some internal confidence among trade unionists in order to attain two different objectives. The political aim was to weaken Peronism by dividing the labour movement. The social aim was to negotiate a 'social peace' -the absence of strikes and demonstrations against the government- in the months prior to the elections. In other words, the government, once again, attempted to control the power of the labour movement. In order to do this, Alfonsín's government began negotiations with the *Grupo de los 15*, a faction of the labour movement. This group was formed by important trade unions such as UOM, Light and Power, plastic sector workers, car workers, and commercial workers, and led by 'orthodox' Peronists such as Lorenzo Miguel, Carlos Alderete, Jorge Triaca, José Rodríguez and Armando Cavalieri. All of them had experience of negotiating with governments, from the military dictatorship to Alfonsín<sup>17</sup>. The *Grupo de los 15* had a very different strategy from the CGT's. The *Grupo* was negotiating with the government wage increases by sector -most notably, the August UOM's agreement. In the framework of these agreements, trade unionists were achieving their objectives. Thus, the objective of the *Grupo* was to end the CGT's confrontation since the general strikes did not achieve trade unions' objectives. Indeed, the *Grupo de los 15* did not want to support more general strikes (Gaudio *et al*, 1990, p. 170).

As a result of the agreement reached by the government and *los 15*, in April 1987, Carlos Alderete, from the Light and Power workers, was appointed Minister of Labour (Clarín, 28-3-1987, p. 2). The terms of the agreement obliged a process of negotiations and dialogue, instead of the confrontation led by the CGT. The government would approve wage accords such as that the UOM achieved in August 1986, free collective wage bargaining would begin in 1988, and the Congress would



legislate a new national health system which would involve, union participation in the running of workers' social welfare funds (*Obras Sociales*). The trade unionists promised to discourage strikes and to persuade orthodox Peronists in the Chamber of Deputies to support the labour legislation that the government proposed (Beliz, 1988, p. 22).

One of the results of the agreement with *los 15* was that in the next wage increases reached by the UOM there was a three-month no-strike clause (McGuire, 1992, p. 47). During Alderete's six months as Minister of Labour there was no call for a general strike. However, the confrontation with the workers movement moved to the Cabinet.

As soon as Alderete took office he announced that he was considering with Sourrouille's economic team an emergency wage increase. This was rejected by the Economics Minister (Clarín, 30-4-1987, p. 2). Alderete began to apply a special policy -he was unofficially approving wage accords between trade unions and employers. According to the government's policies the key point of these accords was the promise from the employers not to transfer the wage increase to price rises. Alderete was approving wage accords without that promise (Gaudio *et al.*, 1990, p. 176). After this confrontation, Sourrouille and Alderete agreed an increase of 17.6 per cent of the minimum wage and from June a general increase of 6 per cent (Gaudio *et al.*, 1990, p. 177).

However, the confrontation between Alderete and Sourrouille then changed, focusing on labour legislation. The participants in this struggle were the government, Alderete and the CGT, and the employers organisations such as the UIA and the group of *Capitanes de la Industria*<sup>18</sup>. The labour legislation concerned wage bargaining, union statutes and the administration of workers' social welfare funds. The President received members of the UIA, SRA, *Cámara Argentina de Comercio*, *Cámara Argentina de la Construcción*, *Asociación de Bancos Argentinos*, and the

*Capitanes* who complained about the legislation. The most controversial point was the enlargement of strikers right (including the work-to rule or *trabajo a desgano* as one of the strike rights). The employers' organisations argued that this undermined the productivity of the country. Finally, Alfonsín decided to postpone the discussion of the legislation in the Congress until after the September elections (La Nación, 14-6-1987, 3rd. section, p. 1).

In seeking to incorporate a Peronist trade unionist into the Cabinet, Alfonsín was attempting to divide and weaken the union movement. Indeed, the CGT, at the beginning, opposed the negotiations between the government and *los 15*. In fact, the CGT vetoed Alfonsín's first candidate, José Rodríguez from SMATA, who after the CGT's decision did not accept Alfonsín's offer. Finally, the CGT accepted Alderete's appointment due to the pressure from the *Grupo de los 15* (Gaudio *et al*, 1990, p. 171). In this sense, Alfonsín's objective was also to neutralise the CGT's confrontation by exacerbating the internal divisions of the labour movement.

Alfonsín's second objective was to avoid being confronted with opposition from the trades union movement as the same time as there was internal unrest within the Armed Forces (Alfonsín, 1992, p. 19). This coexistence could, according to Alfonsín, have put democratisation at risk. However, when the Easter military rebellion occurred, Alderete and the CGT's General Secretary were supporting the democratic government. This was the first time in Argentina's history that the CGT actively supported a non-Peronist democratic government threatened by the Armed Forces. In Alfonsín's point of view this was due to Alderete incorporation into the Cabinet<sup>19</sup>.

However, Alfonsín's first objective was defeated. He could not control the trade unions. From the very beginning of his government, Alfonsín attempted to control and to politically demobilise the trade unions. However, as said, all his attempts had failed. On the other hand, the trades union movement did achieve some of



its objectives: free collective bargaining and the expansion of strikers rights would be sanctioned. Moreover, the government had given many wage increases as a consequence of the pressure of the trade unions. Alfonsín's policies were also defeated when in the Easter military rebellion trade unionists supported the democratic government. Thus, his argument about the authoritarian basis of the trades union movement lost validity.

The powerful role of the trade unions was an important obstacle to the resolution of the crisis of the Argentinian state. Indeed, Alfonsín could not apply an economic adjustment program in the context of confrontation with the trade unions. The trade unions were able to block state policies. Indeed, they undermined the *Austral* Plan through their endless demands for wage increases. Alfonsín argued that, in order to consolidate democracy, he had to concede to the trade unions; however, this shows the government's incapacity to control the trade unions.

### III. The Armed Forces

The public judgement of the *Juntas Militares* began a new stage in the relationship between the Radical government and the Armed Forces. On the 9th of December 1985 the Federal Chamber of Justice passed sentence on the *Juntas Militares*. Lt. General Jorge Videla and Admiral Emilio Massera were given life sentences, Lt. General Roberto Viola was given seventeen years, Admiral Lambruschini eight years, and Brigadier Orlando Agosti four and a half years. Brigadier Omar Graffigna, Lt. General Leopoldo Galtieri, Admiral Jorge Anaya and Brigadier Basilio Lami Dozo were acquitted (Clarín, 10-12-1985, p. 2-4, 54). The last three remained under confinement awaiting the outcome of the trial over

their management of the Malvinas war (Latin American Weekly Report, 13-12-1985, p. 1)<sup>20</sup>.

Point number 30 of the sentence of the Federal Chamber undermined Alfonsín's objectives. The text provided for "the trial of superior officers who commanded the zones and subzones of defense during the war against subversion and of all those who had operational responsibilities" (Clarín, 10-12-1985, p. 55). Point 30 determined that all the evidence that had been presented to the Federal Chamber would be given to the *Consejo Supremo de las Fuerzas Armadas* which would be responsible for setting in motion the judgements (Clarín, 10-12-1985, p. 55). Point 30 aborted the government's intention of providing a political solution to the question of human rights violations after the sentence of the Federal Chamber. Indeed, to propose a law which established 'due obedience' would have created tension between the Judicial and Executive Powers. Therefore, Alfonsín had to abandon his proposal of 'due obedience'.

Alfonsín wanted to resolve the question of human rights violations. He well understood that the Armed Forces would not passively accept that their officials - retired or on active duty- were being judged by civilian tribunals for acts committed in 'their war' against guerrillas. The main problem was how to put an end to the question of human rights violations without being accused of weakness *vis-à-vis* the Armed Forces, or even worse, of forgetting the 30000 *desaparecidos*, their parents, husbands, wives, children and friends who were waiting for justice. Alfonsín could not resolve this predicament.

A double discourse begun. On the one hand, Alfonsín was trying to approach the Armed Forces with promises of a political solution -the three levels of responsibility or 'due obedience'- and with the recognition of the need to conclude the trials. On the other hand, Alfonsín was still emphasising his commitment to punish those who had committed human rights violations. Alfonsín's policy towards the



Armed Forces became ambiguous<sup>21</sup>. He applied quite different strategies in an attempt to avoid the very thing that eventually occurred: a military rebellion.

Alfonsín's first strategy was to apply the so-called *Instrucciones al Fiscal General del Consejo Supremo de las Fuerzas Armadas* (Instructions to the General Prosecutor of the Supreme Council of the Armed Forces). The Instructions were sent by the Minister of Defense. They established that: 1) subordinates would be punishable when they had been able to decide on their acts, they had known the illegitimacy of the order or they had committed aberrant or atrocious acts; 2) it should be understood that the subordinate was able to decide when not to follow the orders he had been given; 3) it should be considered that the subordinates acted in ignorance of the illegitimacy of the orders; and 4) subordinates were responsible for aberrant or atrocious acts when these acts were in excess of the orders given (Clarín, 25-4-1986, p. 2-3).

After the Instructions were known, Alfonsín faced a crisis within the Judiciary. The Federal Chamber of Justice threatened to resign. Julio Strassera, the General Prosecutor of the trial of the *Juntas Militares* also threatened to resign (Acuña and Smulovitz, 1991, p. 17). Most of the political parties -including the Radical Party- and the human rights organisations were against the Instructions. They argued that they were an intrusion of the Executive Power into the judgements and constituted a 'hidden amnesty'. They also called for a social demonstration against the Instructions (Acuña and Smulovitz, 1991, p. 17). Finally, Alfonsín in his speech on the 1st of May in the Congress announced that he would give new instructions to avoid 'due obedience' protecting those who had committed aberrant and atrocious acts under orders but who in reality had been able to decide not to carry out these commands (Clarín, 2-5-1986, p. 10). The Radical government was unable to implement its own policies. Indeed, pressure from organisations of human rights, the Judiciary and the political parties -also the Radical Party-, blocked and modified Alfonsín's policies.



Before the end of the year, Alfonsín applied his second strategy. He sent a proposal to the Congress to deal with the increasing number of judgments against officials from the Armed Forces. The *Punto Final* (full stop) law had the objective of ending the trial of human rights violators by establishing a deadline for starting court enquiries of military officials accused of such violations. After the deadline no other trial could be started. The law established a 60 day deadline from the day of its sanction (Clarín, 6-12-1986, p. 4). It was passed by the Senate and the Chamber of Deputies by the end of December 1986 (Clarín, 31-12-1986, p. 2)<sup>22</sup>.

Although January is a holiday month for the Judiciary, the Federal Chambers of Córdoba, Bahía Blanca, Tucumán, Rosario, Mendoza, Comodoro Rivadavia and La Plata suspended the holiday in order to clear the backlog of judgements before the new law come into force. By the 23rd of February 1987 -date of the deadline of the *Punto Final* law- 487 cases had been presented to courts against over 300 officials, thirty per cent of whom were on active duty (Clarín, 22-2-1987, p. 2-3). The *Punto Final* law intended to end the judgements of Armed Forces officials. However, the Judiciary's reaction modified government expectations. The government thought that less cases would have been presented (Clarín, 22-2-1987, p. 2-3). In this sense, the Radical government saw, once again, the frustration of its objectives.

Indeed, the Armed Forces were in a situation of internal upheaval. Horizontal cleavages -based on ideological and professional differences- had appeared within the Armed Forces under the military dictatorship. However, the Armed Forces were united in their defence of State Terrorism. The horizontal cleavages deepened due to Alfonsín's policies and the reaction of the hierarchy of the Army. Low rank officials, although they did not approve Martínez de Hoz's economic strategy, did support State Terrorism and, in fact, they themselves applied it and also went to the Malvinas war. These low ranking officials were now majors or lieutenant colonels who were being judged by civilian courts for human rights violations. They thought that they were



being abandoned by those who had commanded them in the implementation of State Terrorism. A strong feeling of solidarity developed amongst them. Before going to face the civilian tribunals, they were celebrating in front of farewell masses. They were also distributing documents to journalists in which they argued that

"the current military hierarchy was part of the Armed Forces during the war against the guerrilla, occupying significant posts... The legality that then they did not require of the *Juntas Militares*, they want now to impose it on their subordinates who just obeyed their orders... these judgments affect the dignity and the honour of the Armed Forces and it is not a question of acceptable percentages of convicted or accused" (Fontana and Llenderrozas, 1992, p. 190).

The Army was, then, internally divided. Senior officials opposed the Generals and their attitude towards the trials for human rights violations. The Instructions as well as the *Punto Final* law were not enough to placate these officials. On the contrary, they provoked a confrontation between different levels of the Army hierarchy. Senior officials viewed the Generals as accomplices in Alfonsín's attack on the Armed Forces. The Easter rebellion was the outcome of the internal upheaval of the Army.

#### *i. The first military rebellion*

On the 14th of April 1987, major Ernesto Barreiro refused to present himself to the Federal Chamber of Córdoba and took refuge in the 14th Airborne Infantry Regiment in Córdoba (Clarín, 16-4-1987, p. 2-3). Barreiro had the tacit support of the regiment's commander, lieutenant colonel Luis Polo. Three days later, lieutenant colonel Aldo Rico barricaded himself and his followers in *Campo de Mayo* Regiment in Buenos Aires to support Barreiro's action (Clarín, 16-4-1987, p. 2-

3). The main demand of the rebels -known as *carapintadas* - was for a political solution to human rights trials, a change at the top of the Army -they specifically wanted General Eduardo Ríos Ereñú to be removed-, and their own pardoning (Clarín, 16-4-1987, p. 2-3).

The Army Chief of Staff, General Ríos Ereñú, ordered troops to repress the rebels but they did not obey him. Therefore, he resigned (Clarín, 18-4-1987, p. 44). The Army was divided between the 'rebels or *carapintadas*' and those who while not supporting the rebellion refused to repress it. The main point of disagreement between the 'rebels' and the 'legalists' was the method adopted by the former in disobeying internal Army discipline. Alfonsín found himself with the support of generals who did not have any power over their subordinates<sup>23</sup>.

During the days of the rebellion social demonstrations supporting the government were held in all the main squares of Argentina. In Buenos Aires, *Plaza de Mayo* had been crowded since the very beginning of the rebellion and there were also social demonstrations against the military rebellion in front of the *Campo de Mayo* Regiment (Clarín, 18-4-1987, p. 2-3). The 'rebels' were completely isolated from civil society and democracy was supported by all the political parties and other institutions such as the Church and the representative organisations of labour and business. An *Acta de Compromiso Democrático* (Democratic Commitment Act) was signed by all the political parties whose leaders were in the House of Government during the days of the rebellions (Clarín, 18-4-1987, 2). The CGT called for an indefinite strike to support democracy and Ubal dini joined the political leaders in the House of Government (Clarín, 18-4-1987, p. 8-9). This was the first time in Argentina's history that the political parties, the representatives of the organisations of labour and business, the Church and society had supported democracy against a military rebellion.



With this popular pressure against the rebellion, Alfonsín went to the *Campo de Mayo* Regiment on the 19th of April. As Commander-in-Chief of the Army Alfonsín ordered the 'rebels' to surrender. When he returned to give a speech in *Plaza de Mayo* he made the mistake of calling some of the *carapintadas* 'heroes of the Malvinas war' (Clarín, 20-4-1987, p. 2-3). Because of this, it was perceived that Alfonsín had negotiated with the rebels. Less than one month later this view seemed to be confirmed when Alfonsín sent his 'due obedience' proposal to the Congress (La Nación, 5-6-1987, p. 1 and 4).

The 'due obedience' law had the effect of exonerating all officials at the rank of lieutenant colonel or lower charged with human rights offences -whether or not they had committed excesses- and more senior officers who were not key decision-makers (La Nación, 5-6-1987, p. 4)<sup>24</sup>. Although the concept of 'due obedience' was one of Alfonsín's initial objectives, its sanction was viewed as a result of military pressures. After three and a half years in office, Alfonsín achieved his objective only after a military rebellion.

The *Semana Santa* military rebellion had many consequences. First, after the rebellion the Army was clearly divided. Although the demands of the 'rebels' were the same as those of the Army proper, the method chosen by the 'rebels' was to break up the Army's internal discipline. Secondly, the high rank officials were against the 'rebels' but did not repress them showing that despite internal differences the Army was still unified. Thirdly, after *Semana Santa*, in addition to the question of human rights violations, the question of the *carapintadas* added a new conflict in the already tense relationship between the democratic government and the Armed Forces. The final consequence was the legislation of Alfonsín's 'due obedience' proposal.

However, *Semana Santa* had a positive side. It was a military rebellion which was not repressed by force and did not end in a military coup. The President himself ended the rebellion when he went to *Campo de Mayo* to order the rebels to surrender.

Why did *Semana Santa* not give rise to a military coup? One could suggest that the 'rebels' did not want to overthrow the democratic government (Norden, 1990, 168-169). However, I argue that the deep opposition of Argentinian society to the military rebellion isolated the 'rebels'. The support for democracy from the political parties, the CGT, the SRA, the UIA, the Catholic Church, the *Capitanes de la Industria* and thousands of people in *Plaza de Mayo* and in *Campo de Mayo* was the most important factor in explaining why *Semana Santa* was no more than a rebellion. Last but not least, the international community also condemned the military action (Clarín, 17/18-4-1987).

This support was a consequence of the discrediting of the Armed Forces, partially achieved by Alfonsín's policies towards human rights violations. Therefore, Alfonsín's policies, despite the *Punto Final* and the due obedience laws, did help to consolidate democracy. However, as said, due to the intensification of the economic crisis, the human rights violations issue became secondary and it lost the essential domestic support needed to confront the Armed Forces. In other words, the sanction of the *Punto Final* and the due obedience laws were consequences of the failure of the government's economic strategy. The government was gradually losing domestic support due to its incapacity to stabilise the economy, and thus, it could no longer maintain an open conflict with the Armed Forces.

#### IV. Conclusion

The Radical government, after four years in office, could not resolve the crisis of the Argentinian state. Most clearly, the Radical government, after the failure of Grinspun's strategy to resist the IMF and to prevent high inflation, did not attempt to resolve the crisis of the Argentinian state. It did not intend to radically



restructure the state, and at the same time, class relations. The *Austral* Plan was not an attempt to achieve a 'monetarist' modification of the economic structure and the structure of class relations in Argentina. Its limited objectives were to prevent hyperinflation and to reduce the fiscal deficit. As it did not intend to modify the military dictatorship legacy, it maintained it and gradually deepened measures taken by the dictatorship. In this sense, economically, the Radical government prepared the ground for a 'monetarist' restructuring of the state and of its relation to the economy.

In its four years in office, the Radical government had applied many strategies to control the power of trade unions. As demonstrated, all its attempts failed. The government conceded to most of the trade unions demands since it was unable to undermine their power. The power of unionism was an important barrier to the restructuring of the state and its class relations. As showed, most of the government's economic strategies were undermined by the power of the trade unions.

Finally, the Radical government was threatened by a military rebellion. In this area, the government did achieve its objectives. It resisted the military rebellion, and thus, its main political objective -the consolidation of democracy- was strengthened. Despite Alfonsín's concessions to the Armed Forces -the *Punto Final* and due obedience laws- he was able to avoid a military coup for two reasons. First, because of international and domestic support for democracy, and second, the CONADEP report and the public judgement of the *Juntas Militares* which discovered the horrors of State Terrorism and discredited the Armed Forces. Thus, while the crisis of the Argentinian state was not resolved by the democratic government, this crisis did not lead to the seizure of state power by the Armed Forces. This was Alfonsín's main political achievement.

As the Radical government did not resolve the crisis, it lost the 1987 elections. The analysis I will present of the government's last two years in office shows that the government began to prepare the ground for the 'monetarist'

restructuring of the state, that the trade unions ended their policy of confrontation in order to support the Peronist party for the 1989 general elections, and that the Armed Forces, again, attempted to retain their historical role by threatening the maintenance of democracy. The downfall of the Radical government was caused by its incapacity to resolve the economic crisis which became a political crisis, making the 'monetarist' restructuring of the state and of its class relations seem inevitable.

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<sup>1</sup> The economic team argued that, in a highly inflationary situation, future inflation is a function of past inflation. They believed that 'inertial' inflation can not be solved by orthodox policies. Sourrouille's economic team believed that the way to end this vicious circle was to abandon indexation (Dornbusch and De Pablo, 1988, p. 116).

<sup>2</sup> As said above, the September 1984 agreement with the IMF had been cancelled in January 1985 by the Fund since Argentina did not achieve the targets of the agreement due to a monthly inflation rate of 25 per cent. As the Radical government had decided to service the debt it had to agree with the Fund on the domestic economic strategy which would allow the interest payment. This was the main objective of the IMF 'letter of intent'. The government would apply a specific economic strategy, and pay the debt, so that, it could receive fresh money from the Fund mainly to pay the interest of the debt. As the 1984 agreement was cancelled, Argentina began new negotiations with the Fund. For more details on the 'conditionality' of the IMF agreements see Mosley (1987) and Sachs (1989a).

<sup>3</sup> Interview with Adolfo Canitrot, 19-10-1993, Buenos Aires.

<sup>4</sup> Interview with José Luis Machinea, 25-10-1993, Buenos Aires.

<sup>5</sup> Interview with Adolfo Canitrot and José Luis Machinea, 19-10-1993 and 25-10-1993, respectively, Buenos Aires.

<sup>6</sup> Interview with Juan Sourrouille, 19-10-1993, Buenos Aires.

<sup>7</sup> Interview with Adolfo Canitrot, 19-10-1993, Buenos Aires.

<sup>8</sup> 'Over-indexed' means that the increase of public service prices was above the inflation target.



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<sup>9</sup> My emphasis.

<sup>10</sup> Interview with Daniel Heyman, 10-9-1992, Buenos Aires.

<sup>11</sup> A very useful work on this topic is Basualdo and Azpiazu (1990).

<sup>12</sup> Interview with Juan Sourrouille, 19-10-1993, Buenos Aires.

<sup>13</sup> In 1984 the volume of grains was 40 million (Sociedad Rural Argentina, 1992, p. 93). 1985 constituted a record which Argentina would not reach in the incoming years.

<sup>14</sup> Interview with Adolfo Canitrot and José Luis Machinea, 19-10-1993 and 25-10-1993, respectively, Buenos Aires.

<sup>15</sup> Interview with Adolfo Canitrot and José Luis Machinea, 19-10-1993 and 25-10-1993, respectively, Buenos Aires.

<sup>16</sup> Interview with José Luis Machinea, 25-10-1993, Buenos Aires.

<sup>17</sup> As explained above, during the presidential electoral campaign Alfonsín announced that some trade unionists had reached a pact with some military officials. They were the same trade unionists Alfonsín called to make a pact.

<sup>18</sup> In the transition to democracy, a new group of businessmen was created in opposition to the *Consejo Empresario Argentino*, a business organisation which had been closely connected to the military dictatorship. During the transition some businessmen understood that a democratic government would require a different form of business organisation. This group was known as *Grupo de los nueve* (Group of the nine). Its objective was to support industrial development in order to weaken the agricultural sector. The *Grupo de los nueve* declared its support for democratisation. The *Grupo de los nueve* was the antecedent of the *Capitanes de la Industria* (captains of industry). They were Manuel Gurmendi from ACINDAR (steel company), Ricardo Gruneisen from ASTRA (petrol and petrochemical companies), Jaime Nuñez from Bagley (food company), Sebastián Bagó from Laboratorios Bagó (pharmaceuticals), Julio Hojman from BGH (electrical products), Carlos Bulgheroni from BRIDAS (GEN), Miguel Roig from Bunge y Born (multinational



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company), Gerardo Cartellone from Cartellone (construction), Guillermo Kühl from Celulosa Jujuy (paper production) and SAAB Scania, Martín Blaquier from Ledesma (sugar company), Amalia Lacroze de Fortabat from Loma Negra (cement company), Francisco Macri from SEVEL (automobile company), Amín Massuh from Massuh (paper production), Vittorio Orsi from Perez Companc (GEN), Enrique Pescarmona from IMPSA/Pescarmona (GEN), Javier Gamboa from Alpargatas (textile company), and Roberto Rocca from Techint (multinational company). Alfonsín promoted and supported the *Capitanes de la Industria*. There was frequent communication between the *Capitanes* and the government. The *Capitanes* aim was to organise a group to influence the government. The *Consejo Empresario Argentino* could not do this because of its links with the military dictatorship. The *Capitanes* wanted also to distance themselves from the 'liberal' point of view of the *UIA*. Both organisations, the *UIA* and the *Consejo Empresario Argentino*, were discredited due to their support of the military dictatorship. The *Capitanes* wanted to show that the bourgeoisie could prosper and be influential in a democracy. From Alfonsín's point of view, the *Capitanes* were a significant support. He wanted to integrate the bourgeoisie into the redemocratisation process. As the bourgeoisie had traditionally supported military coups, Alfonsín wanted to dispel the perception that democracy was against business. For more details see Ostiguy (1990), Sguiglia (1992), Majul (1992), and Acevedo *et al* (1990).

<sup>19</sup> Interview with Adolfo Canitrot and José Luis Machinea, 19-10-1993 and 25-10-1993, respectively, Buenos Aires.

<sup>20</sup> In 1986 Galtieri was given twelve years, Anaya fourteen, and Lami Dozo eight years for their responsibility in Argentina's defeat in the Malvinas war (Latin American Weekly Report, 9-5-1986, p. 2).

<sup>21</sup> Interview with Andrés Fontana, 6-12-1993, Buenos Aires.

<sup>22</sup> In the Senate the bill was passed by 25 votes in favour, 10 votes against (8 Peronist senators and the two representatives of the *Movimiento Popular Neuquino*), 11 Peronist senators did not attend. In the Chamber of Deputies the bill passed by 126 votes in favour, 16 votes against and 1 abstention, 111 deputies did not attend. The absence of the Peronist deputies made it easier for the bill to be sanctioned with the two thirds required for its direct treatment. Therefore, in both Houses the



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Peronist Party cooperated with the government to pass the bill (De Riz, 1991, p. 24).

<sup>23</sup> The Air and Naval Force supported the democratic government but because they perceived that the rebellion was not an attempt to overthrow the democratic government but an internal problem of the Army, they did not want to repress the 'rebels' (Clarín, 18-4-1987, p. 2).

<sup>24</sup> The law was passed in the Chamber of Deputies by 119 voted in favour and 59 votes against. The Senate modified the law and passed it by 23 votes in favour and 4 votes against. Finally, the Senate's modifications were passed by the Chamber of deputies by 125 votes in favour and 54 against (Acuña and Smulovitz, 1991, p. 20).

## Chapter 6

### The downfall

1987 - 1989

#### Introduction

After the failure of the *Austral* Plan and the September 1987 electoral defeat, the Radical government attempted to avoid an exacerbation of the economic crisis. Economically, the launching of the *Plan Primavera* was an attempt to temporarily stabilise the economy as a means to win the 1989 general elections. However, the Plan intensified the economic crisis mainly due to its policies discriminating against international creditors and agricultural exporters. With the collapse of the Plan, the economic crisis became a political crisis. In order to avoid the breakdown of democracy, Alfonsín resigned, bringing forward the presidential hand-over.

In this context, the level of confrontation with the trade unions decreased. The CGT was more concerned over the internal elections of the Peronist Party. The *sindicalismo peronista* was divided; while the CGT supported Antonio Cafiero, governor of Buenos Aires province, the *grupo de los 15* supported Carlos Menem, governor of La Rioja province. After Cafiero's defeat in the internal elections of the Peronist Party, the role of the CGT was neutralised. The *grupo de los 15* and Carlos Menem criticised the CGT's confrontational policy. Thus, during the last two years of the Radical government the role of the CGT was gradually undermined by the Peronist Presidential candidate, Carlos Menem. This explains the CGT's indifference during the hyperinflation process and the phase of wide-scale looting.

Finally, two military rebellions and a guerrilla attack on an Army unit slightly modified the confrontation with the Armed Forces. The two military



rebellions were consequences of the Easter rebellion since their main objective was that the *carapintadas* not be judged for having disobeyed the Army's internal discipline. The guerrilla attack on an Army unit actually benefited the Armed forces, the latter being allowed back to participate in the resolution of internal conflicts which was the basis of State Terrorism.

This chapter is divided into four sections. The first section analyses the economic crisis and the political causes of its intensification. The second section analyses the reason for the CGT's change of policy and its neutralisation by the Peronist Presidential candidate, Carlos Menem. The third section deals with the two military rebellions and the guerrilla attack, analysing their main causes and consequences. The fourth section concludes by briefly analysing the reasons for the intensification of the economic crisis and the downfall of Alfonsín's government.

### **I. New Economic Measures**

After the failure of Grinspun's strategy and the *Austral* Plan, the Radical government had no economic strategy to resolve the economic situation. Rather it attempted to control the crisis by short-term measures. However, regarding the external debt, the government modified its policy. In April 1988 the government began to delay interest payments on the external debt. Although it did not declare a 'unilateral moratorium', it announced its decision to suspend interest payments until after the 1989 general elections. This return to Grinspun's strategy confronted the government with Argentina's international creditors, intensifying the economic crisis. In this context, Alfonsín was forced to resign in order to avoid the political crisis ending in the collapse of democracy.

After the electoral defeat a new set of economic measures was applied: prices, wages, the exchange rate and public utility rates were all frozen. A two-tier market was implemented to eliminate the black market. This measure implied that the price of the dollar was, in the financial market, freely determined while, for commercial transactions, it was fixed by the Central Bank (La Nación, 14-10-1987, p. 1).

After the elections, crucial international support was obtained from the US government. Sourrouille managed to win the support of James Baker, Treasury Secretary and the World Bank for the new set of measures applied in October. A bridge loan of US\$ 1.95 billion in fresh funds was announced in Washington by the Chairman of the creditors' steering committee (Latin American Weekly Report, 8-10-1987, p. 4). This credit gave a breathing-space for Alfonsín's government after its electoral defeat.

As a consequence of the October measures, by the end of December, the inflation rate was 3 per cent -in October it had reached 20 per cent. The freeze was abandoned however when the exchange rate was devalued by 7.5 per cent. In order to avoid distortions of relative prices the freeze had to be abandoned due to the large fiscal deficit of the public sector -this was 6.3 per cent of GDP for the last quarter of the year (Machinea, 1990, p. 69).

The first half of 1988 proved the government's inability to, once again, reduce the fiscal deficit, to prevent increases in the inflation rate, and to reach an agreement with the IMF and the commercial banks. Regarding the latter, due to Argentina's incapacity to meet the IMF's target for 1987 -that, is the reduction of the fiscal deficit to 1.14 per cent of GDP for the last quarter of the year (Clarín, 11-7-1987, p. 2)- the Fund stopped a withdrawal of US\$ 225 million. In January after several meetings between the government and the IMF staff, an agreement could not be reached. The main disagreement was over Argentina's efforts to bring down the fiscal deficit. The negotiations broke the stalemate after the January 1988 military



rebellion. The IMF changed its position in order to demonstrate its support for democracy<sup>1</sup>. Thus, after the rebellion, in February, an agreement with the IMF was achieved. The agreement was based on periodical increases in public utility rates as well as the establishment of new taxes in order to reduce the fiscal deficit (Clarín, 15-2-1988, p. 2).

In April 1988, Argentina suspended the interest payments. The Radical government after four and a half years in office decided to 'unilaterally' suspended the service of the debt without declaring a 'unilateral moratorium'. The government suspended the payments mainly due to a very low level of international reserves, which was by the end of 1987 around US\$ 1 billion (Machinea, 1990, p. 70). This low level was caused by the large current account deficit of 1987<sup>2</sup> and the delays in the disbursements from the commercial banks (Machinea, 1990, p.69). As explained above, the Radical government implemented this strategy of delaying interest payments at the beginning of 1984 when the level of international reserves was also US\$ 1 billion. By mid-1984 they stood at US\$ 3.5 billion. Therefore, one of the main objectives of the 1988 *de facto* moratorium was to increase the level of international reserves which, as I will explain below, was essential for the launching of the *Primavera* Plan.

In order to avoid a confrontation with the international creditors, the government did not declare a 'unilateral moratorium', but continuing negotiations. Thus, the *de facto* moratorium was never presented as a political issue, rather it was explained as being based on economic difficulties. However, the launching of the *Primavera* Plan explained that the *de facto* moratorium was preparing the ground for measures to be applied in the exchange market.

By this time, the increase in public utility rates -which reached 22 per cent from February to March (Clarín, 9-4-2988, p. 17)-, the rise in the international prices of grains<sup>3</sup>, and the uncertainty in the exchange market because of the low

level of international reserves caused an acceleration of the inflation rate due to their effect on the fiscal deficit. From January to March the CPI went from 9.1 to 14.7, and from April to August went from 17.2, 15.7, 18, 25.6 to 27.6 per cent (Ambito Financiero, 8-7-1988, p. 2 and 8-9-1988, p. 1).

On the 9th of July internal elections were held in the Peronist Party. Carlos Menem<sup>4</sup>, governor of La Rioja province, became the Presidential candidate of the Peronist Party in opposition to the candidature of Antonio Cafiero, governor of Buenos Aires province (Clarín, 11- 7-1988, p. 1). This meant that the campaign for the general elections of 1989 began approximately one and a half year earlier than the date of the elections. The campaign was focused mainly on the economic situation, and both candidates, from the ruling party and the opposition, criticised the economic team and the President himself. After the internal elections of the Peronist Party, the Radical government, in its last attempt to resolve the economic crisis and win the 1989 general elections, implemented a new set of economic measures.

## II. The *Primavera* Plan

The *Plan Primavera*, launched at the beginning of August, was based on a price agreement with the UIA and the *Cámara Argentina de Comercio* (Argentinian Chamber of Commerce, CAC) to be periodically renewed. In order to obtain the UIA's support, the government made some concessions. VAT was reduced from 18 to 15 per cent which represented a total revenue loss of 0.5 per cent of GDP. The Plan included a price agreement for 180 days, a devaluation of the *austral* against the dollar by 11.4 per cent, and an increase in the public utility rates of 30 per cent. The wholesale prices could be increased by 5 per cent until the end of September. Public



utility rates would remain unchanged until the end of September. In October they would increase by 3 per cent, and afterwards they would be indexed at slightly below the inflation rate (Ambito Financiero, 4-8-1988, p. 1).

Although the two-tier market continued, some changes were implemented: the imports and private interest payments would be paid by the free market, the proceeds from agricultural exports and 50 per cent of the proceeds from industrial exports by the official market, and the other 50 per cent would be sold in the free market. The Central Bank's strategy was that the gap between both exchange rates should not be larger than 25 per cent and that, in order to maintain it, the Bank would use monetary policy. The exchange rate system implied a tax on agricultural products which was going to be collected by the Central Bank, buying dollars at the official exchange rate and selling them in the free market. The tax was equivalent to the difference between the exchange rates in both markets (Ambito Financiero, 4 - 8-1988, p. 1). The government decided this policy due to its promise of not increasing taxes on agricultural exports. However, as the two-tier market implied a tax, the agricultural sector did not support the Plan (Ambito Financiero, 4-8-1988, p.1).

#### *i. The World Bank's support: Argentina's lifeline*

The Alfonsín administration obtained the support of the World Bank for the *Plan Primavera* through an unprecedented loan package. The President of the World Bank, Barber Conable, went to Buenos Aires to negotiate the loan and to support the plan pointing out that "Argentina is implementing a programme which can be beneficial for the people of that country" (Latin American Weekly Report, 29-9-1988, p. 3). At the September meeting of the IMF and the World Bank, held in Berlin, Mr. Conable announced his decision to recommend US\$1.25 billion in new loans for Argentina (Ambito Financiero, 26-9-1988, p. 1). This announcement was

highly controversial because the loan was approved before Argentina had reached an agreement with the IMF.

The Financial Times (27-9-1988, p. 4) pointed out that, regarding the debt problem, this loan would change the relationship between both institutions. It argued that, in the Argentinian case, the World Bank was taking the lead, incorporating in the agreement some macroeconomic conditions which were usual in an IMF letter of intent. In the Financial Times' words, the World Bank was 'usurping' the role of the IMF. The newspaper suggested that this was a result of pressure from the US government: "the US administration anxious for the debt crisis not to blow up during the election period has pushed the World Bank into this more central role" (Financial Times, 27-9-1988, p. 4). This was also suggested by The Economist (11-3-1989, p. 20), which also highlighted that the support which Argentina obtained from the World Bank was unusual, considering that the country was, as a borrower, as 'bad' as any. The article also emphasised that this agreement was made with the country which, since 1982, had re-scheduled its debt three times and taken US\$ 7.7 billion in new cash from the banks. It also pointed out that the agreement with the World Bank was based only on Argentina's promise to reduce its fiscal deficit from 4.6 per cent of GDP to 2.4 per cent for 1989.

It was suggested (Latin American Regional Reports Southern Cone, 1988, 17-11-1988, p. 5) that the US government put pressure on the World Bank to support the Radical administration, fearing the possibility of a Peronist victory in the approaching general elections. Machinea, who was then President of the Central Bank, points out (1990, p. 125) that the 1988 agreement "produced frictions among some developed countries and inside the US government, as well as a lot of trouble to some members of the World Bank". There were two different sides within the US government. On the one hand, George Schultz, Secretary of State, and James Baker, Secretary of the Treasury wanted to support Argentina's democracy and Alfonsín's government. They put pressure on the World Bank to grant the September



loan. On the other hand, David Mulford, Under-Secretary of the Treasury, and Michel Camdessus, Director of the IMF, and the commercial banks, were against such agreement on the grounds that from April 1988, Argentina stopped paying interest (Morales Solá, 1990, p. 41). The commercial banks soon gave a reply to the World Bank's attitude. In October the Chase Manhattan Bank announced that it would transfer US\$ 550 million of Argentina's credit to the 'non-performing category' - that is that Chase recognised that this money would not be paid back. After this, some other commercial banks threatened to do the same if Argentina did not suspend its 'de facto moratorium' (Morales Solá, 1990, p. 41). However, this did not affect Argentina's international position due to the World Bank's support.

Turning to the domestic sphere, the *Primavera* Plan initially performed better than expected as the CPI went from 11.7 per cent in September to 6.8 per cent in December (Ambito Financiero, 11-1-1989, p. 4). The price agreement with the UIA and the CAC was renewed. The exchange market seemed under the government control. The Central Bank increased its reserves due to the mechanism implemented through the exchange market. Likewise, from September the government began to implement reductions on tariffs, starting to open up Argentina's economy as had been agreed with the World Bank (Ambito Financiero, 5-9-1988, p. 1).

In October, with the better performance of the economy and international support, the government announced that the general elections would take place on the 14th of May (Ambito Financiero, 8-9-1988, p. 1). This meant there would be considerable time between the elections and the Presidential change-over which would be held on the 10th of December. The earlier positive results of the Plan and its international support was the main reason why the government decided such a long transition (Alfonsín, 1992, p. 8). The government knew the limits of the Plan and after May an electoral defeat would have been highly probable. Therefore, the main political objective of the *Primavera* Plan was to stabilise the economy in order

to win the 1989 general elections. In this sense, the *de facto* moratorium was also a tool to win the elections by improving the economic situation.

November was the best period of the Spring Plan. The CPI was 5.7 per cent and the WPI was only 3.9 per cent (Ambito Financiero, 11-1-1989, p. 4). However, in the exchange market the situation was not so good. Between August and November the official dollar was adjusted by only 7.98 per cent while the inflation rate was 58.2 per cent (Garfunkel, 1990, p. 38). The *atraso cambiario* -the overvaluation of the *austral*- was the focus of criticism of the Plan and would later provoke its abandonment. The *atraso* was strongly criticised by the agricultural sector and the exporters since they had to deal with a low dollar (compared with the black market dollar) and the domestic inflation rate.

By the time of the implementation of the *Primavera* Plan, the economic team had lost direction, but they did not leave the government due to their loyalty to Alfonsín, who did not have any other economic team to replace them<sup>5</sup>. As said, the main objective of the Plan was to control short-term variables in order to win the general election. International support from the World Bank was essential to obtain domestic credibility. Indeed, the exchange market mechanism was very risky, even though international support was supposed to enable the Central Bank to maintain the level of international reserves. The US government and World Bank appeared to be Alfonsín's lifeline.

However, in January 1989, due to Argentina's inability to meet the World Bank's target, the Bank announced that the disbursement of US\$ 350 million scheduled for the end of February would not take place (Ambito Financiero, 3-3-1989, p. 1). The 'unprecedented' loan became a dead letter. The government thereby lost its international 'lifeline'. The reasons why the World Bank and the US government left Argentina without support were, mainly, the Presidential change in



the US, and Menem's international campaign to change his image, lead by a Peronist MP and one of his economic advisers, Domingo Cavallo<sup>6</sup>.

Under the Bush administration, Nicholas Brady was appointed Secretary of the Treasury and David Mulford was confirmed as Under-Secretary. James Baker replaced George Schultz as Secretary of State. These changes, together with the power vacuum created as a result of the change of administration, undermined the US government's support for Alfonsín. The Wall Street Journal (18- 5- 1989, p. 10) stated that it was not so clear whether the change in US policy was a political decision or the consequence of the US Presidential change. In addition, Domingo Cavallo, a Harvard economist, began an external campaign on behalf of the Peronist candidate, especially in Washington, to modify Menem's image. He was to convince US policy-makers that the Menem Presidency would not be 'dangerous' either for the US government or for the commercial banks. He also had to prove that the loans asked for by Alfonsín had an electoral objective (Morales Solá, 1990, 51). In other words, Cavallo aimed to prepare a favourable international context for a Peronist victory. He was, at least in part, successful and the international support given to Alfonsín's government -mainly from the World Bank- weakened. Morales Solá suggests (1990, p. 51) that Cavallo's mission undermined Alfonsín's international support by clarifying Menem's strategy -which rather than being 'dangerous' would become a guarantee for the international creditors and the US government.

By this time, the President of the Central Bank, Machinea, announced that Argentina would not pay the arrears of the debt until an IMF agreement had been reached. He criticised Peronist contacts with international creditors -especially bankers- arguing that if the Radical government was not forced to pay the arrears, a Peronist government would adopt the same policy of delaying payments (Ambito Financiero, 6-2-1989, p. 4). Cavallo, who made these 'Peronist contacts', affirmed that while the government delayed interest payments, it was 'wasting' Argentina's international reserves in trying to control the exchange market. He confirmed that a

Peronist government would not service these arrears (Ambito Financiero, 6-2-1989, p. 4). The electoral campaign was also played out in New York and Washington. This Peronist attitude became crucial.

Indeed, Carlos Menem was the most probable victor in the approaching general elections yet, despite the international and national efforts to modify his image, his economic strategy was unclear, apart from two slogans: a *salario* (a massive wage increase) and a *revolución productiva* (a productive revolution) (Ambito Financiero, 27-2-1989, p. 1). Uncertainty over the general elections and the ambiguity of the Menem's economic positions, together with the precariousness and vulnerability of the economic situation, unleashed a run on the *austral* to the dollar at the end of January. Nevertheless, the crucial element was, once again, the international creditors.

As said above, US government and World Bank support were Alfonsín's lifeline. Therefore, when both adopted a 'hands off' approach, Argentina's economy began to collapse. The instability of the economic situation together with the normal uncertainty provoked by general elections, could have been controlled if the World Bank had not suspended its loan. Without this international support, it was assumed that the Central Bank could not maintain the exchange rate mechanism. Uncertainty over a 'dollarised' economy unleashed a run on the *austral*.

## *ii. Argentina's Black Monday*

In order to maintain the gap between the two exchange rates, the Central Bank sold US\$ 12.1 million in December, US\$ 668.1 million in January and US\$ 242.3 million in the first three days of February (Garfunkel, 1990, p. 82). From the 30th of January to the 3rd of February, the Central Bank lost US\$ 495 million. At the last week-day of the *Plan Primavera*, the commercial dollar was 14.06 *australes*



and on the black market, 17.67 *australes* (Garfunkel, 1990, p. 82). It was then that the government decided to change the exchange market. The 6th of February marked the end of the Spring Plan and the beginning of the end of the Radical government.

Black Monday resulted in big losses for important enterprises<sup>7</sup> which, following the advice of some of the members of the economic team, did not abandon the *austral*, believing that the international reserves of the Central Bank were high enough to maintain the exchange market system. They were not the only losers. The other side of the coin shows that the *austral* was devalued 60 per cent in only 26 days, thereby depreciating the salary of the workers (Garfunkel, 1990, p. 32).

The reasons why the Spring Plan collapsed were firstly, the end of the World Bank's support, secondly, a run against the *austral* due to the approaching elections and the uncertainty of the economic strategy of Carlos Menem, and finally, the reluctance of exporters to sell foreign exchange, speculating on an adjustment of the exchange market. The chaos provoked by the end of the Plan was, mainly, caused by the reluctance from the exporters to sell foreign exchange which provoked an indefinite rise of the dollar because demand was rising and supply was lacking. The exporters no longer wanted to pay the cost of the combination of an inflation rate of 81.5 per cent from August 1988 to January 1989 with an adjustment of the commercial dollar of only 17.17 per cent for the same period (Garfunkel, 1990, p. 41). The Central Bank continued losing reserves while exporters did not sell foreign exchange, expecting a new exchange market modification and speculating with the next government's strategies. Exporters began to sell foreign exchange in Montevideo, Uruguay (Clarín, 27-2-1989, p. 10).

While dollar supply was very low, its demand was excessively high. A government research paper explained that some of the most powerful banks were buying dollars, making demand rise. These banks had as customers the most important transnational companies operating in Argentina. According to this

document, the Republic of New York Bank bought US\$35 million; the French Bank, US\$24; Morgan, US\$24; Citibank, US\$20; Chase Manhattan, US\$8; and among the national banks, *Crédito Argentino* bought US\$14 million, and *Provincia de Buenos Aires*, US\$7 (Majul, 1990, p. 19). From the government's point of view, this was a strategy of Argentina's international creditors, mainly the commercial banks, to undermine the precarious stability reached by the Spring Plan and prove that - whoever governs- Argentina had to pay its debt in order to attain any permanent stability.

The exchange market modification of February attempted to minimise the impact of the 'run' against the *austral* on prices. The new exchange market determined that the exchange rate for all commercial transactions would be set by the government while the financial transactions would operate in the free market (Ambito Financiero, 7-2-1989, p. 1). There was a commercial dollar (14.41 *australes*) for agricultural exports, a special dollar (18.01 *australes*) for imports and a free dollar which was estimated by the government to be 20 per cent over the special dollar (Garfunkel, 1990, p. 83). In a few days the free dollar jumped 45 per cent, reaching 27 *australes*. It also jumped and fell 12 per cent in only one day, with margins of 26 per cent between the purchase and the sale (Garfunkel, 1990, 87). These oscillations represented a spectacular wealth transfer within the private sector and between the private sector and the state.

At the end of February, new measures were implemented in the exchange market. 80 per cent of the proceeds from agricultural exports were to be sold in the commercial market, and 20 per cent in the free market; of those from the industrial exports, 30 per cent would be sold in the commercial market, 50 per cent in the special one and 20 per cent in the free market (Ambito Financiero, 21-2-1989, p. 1). Despite the measure, the run against the *austral* and the strengthening of the dollar continued.



The price agreement between the government, the UIA and the CAC was broken by the unilateral decision of the government to allow an increase of 7.5 per cent (Ambito Financiero, 24-2-1989, p. 1). The government's decision was not so different from the previous agreement. However the unilateralism of the decision was a good excuse for the UIA and CAC to break the agreement (Página/12, 1-3-1989, p. 1). Soon after, Terrabusi, an enterprise belonging to Gilberto Montagna, a representative of UIA in the team which negotiated the previous agreement, increased its prices by 30 per cent (Majul, 1990, p. 49).

Despite the run against the *austral*, the CPI was 8.9 per cent in January and 9.6 per cent in February and the WPI, 6.9 per cent and 8.3 per cent, respectively (Ambito Financiero, 7-3-1989, p. 5).

At the end of March, when the dollar reached 48.40 *australes* (Ambito Financiero, 30-3-1988, p. 1), Eduardo Angeloz, the Presidential Candidate of the Radical Party, publicly demanded the resignation of the economic team (Ambito Financiero, 30-3-1989, p. 12). After four years in office, Sourrouille and his team left Alfonsín's government. Sourrouille's letter of resignation stated that his failure was mainly based on the lack of a political and social pact to neutralise the actions of those who wanted to obstruct an economic reform and the stabilisation of the economy (Ambito Financiero, 3-4-1989, p. 1). However, such a political and social pact was never the government's objective. As explained, the *concertación* attempt was interrupted by the government's unilateral decision to implement the *Austral* Plan. Moreover, the Radical government did not fully attempt to implement an economic reform. While it did intend to stabilise the economy through the *Austral* Plan, this was, as said, not a comprehensive economic reform program. Therefore, as Sourrouille put it "those who wanted to obstruct an economic reform and the stabilisation of the economy" were, in fact, asking for a specific economic reform:

the 'monetarist' restructuring of the state and of its relation to the economy. This was sought mainly by Argentina's international creditors and the upper bourgeoisie.

After four years as a member of the economic team, Machinea stated that 'the external debt is unpayable' (Página/12, 19-3-1989, p.6). He affirmed that the interest payments represented 7 per cent of the GDP. Argentina, under the Radical government, had paid only 50 per cent of the interest, refinancing the rest. He argued that for the middle- and long-term the only solution was a unilateral moratorium, however this measure was highly risky for the short-term (Página/12, 19-3-1989, p. 7). From Machinea's point of view, Argentina's main economic problem was the payment of the external debt which constrained Argentina's economy. As the debt was viewed as a fiscal problem (Página/12, 19-3-1989, p. 7), the 'only' solution to it was a restructuring of the state. Thus, the 'only' solution seemed to be the implementation of the monetarist approach of the 'Washington consensus', since the Radical government had no viable strategy.

### *iii. The political significance of Black Monday*

Black Monday was the event which signalled that the economic crisis had become a political one. As the Radical government proved unable to resolve the crisis of the Argentinian state, the crisis deepened and class struggle intensified. By this time, the state appeared to "all social forces as the primary barrier to the resolution of the crisis and the realisation of their particular aspirations" (Clarke, 1990, p. 27). Black Monday was provoked to show that the 'monetarist' restructuring of the state was inevitable. It was provoked by the 'hands off' approach of the international creditors, the reluctance of agricultural exporters to sell the proceeds from exports, and the run against the *austral* unleashed by the banks. The objective of these groups was to demonstrate that the incoming government -either from the ruling party or the Peronist Party- had to resolve the crisis of the Argentinian state by a



'monetarist' restructuring. That is, to fully apply an orthodox IMF program whose main measures were "fiscal discipline and the reduction of some public expenditures such as subsidies, tax reform, market-determined interest rates, competitive exchange rate, import liberalisation, promotion of foreign direct investment, privatisation, deregulation, and new laws on property rights" (Williamson, 1989, p. 1). This was the set of policies promoted by the 'Washington consensus'. These market oriented policies would resolve the political crisis of the state by restructuring both the state and the working class. It was, thus, to deepen the military dictatorship's *disciplinamiento social* by subordinating the working class economically and politically. Thus, Black Monday, together with the consequences which provoked Alfonsín's resignation, was the price that the Radical government paid due to the non-implementation of an IMF plan. That is, it was the result of the government's reluctance to apply a 'monetarist' restructuring of the state and of its class relations. Black Monday also represented a redistribution of income against the working class, since the devaluation of the *austral* constituted a depreciation of wages.

#### *iv. Argentina after Sourrouille*

In April, Juan Carlos Pugliese, a veteran member of the Radical Party, who had been Minister of Economy under Illia's administration, was appointed to replace Juan Sourrouille. Enrique García Vázquez was again appointed as President of the Central Bank (*Ambito Financiero*, 3-4-1989, p. 1). Due to the pressure of the exporters and the low level of international reserves, the exchange market was modified to an exchange rate system where 50 per cent of goods transactions would operate in the free market. This implied a devaluation of 60 per cent for agricultural exports, and that import and food prices would be tied daily to the exchange rate oscillations (*Ambito Financiero*, 5-4-1989, p. 1). Thus, inflation accelerated.

Interest rates increased to 100 per cent per month. By the end of April, nothing could stop the rise of the dollar which reached 90 *australes* (Garfunkel, 1990, p. 143). The CPI was 33.4 per cent in April and the WPI was 58 per cent (Ambito Financiero, 5-5-1989, p. 1).

After two weeks, the exchange market was again modified. The proceeds from all the exports were sold in the free market with a deduction determined by the difference between the free dollar and the dollar fixed daily by the government - which was, at the beginning, determined at 36 *australes* (Ambito Financiero, 14-4-1989, p. 1).

The *Grupo de los Ocho* <sup>8</sup> proposed to the government a set of economic measures which had two main pillars: an improvement for exporters and the reduction of the fiscal deficit. Rumours that Roberto Alemann would be appointed Minister of Economy appeared<sup>9</sup>. A meeting was held between Alfonsín and the representatives of the *Grupo de los Ocho* (Ambito Financiero, 27-4-1989, p. 1) The outcome of this meeting was a new economic plan. Prices were frozen and public utility rates increased by 20 per cent. The exchange market underwent the most 'expected'<sup>10</sup> and crucial modification: its unification and liberalisation (Ambito Financiero, 27-4-1989, p. 1).

The general elections took place the 14th of May. Carlos Menem won the elections with 41 per cent of the total vote cast, the Radical candidate 37 per cent (Clarín, 15-5-1989, p. 1).

Five days after the general elections, the dollar reached 175 *australes* (Ambito Financiero, 19-5-1989, p. 1). The government tried to achieve an agreement with the Peronist Party to accelerate the Presidential change-over, scheduled for 10th December. These negotiations failed: Peronism did not want to be seen cooperating with the government. After winning the general election, Menem had announced some modifications to his economic strategy. Most notably, he now



proposed the unification of the exchange market, the reduction of export taxes and the payment of the external debt (Ambito Financiero, 4-4-1989, p. 9). These three policies were mainly the demands of those actors who had opposed Alfonsín. The unification of the exchange rate and the reduction of export taxes were demands from the agricultural and industrial sectors, while the payment of the external debt was, of course, demanded by the international creditors. Menem went from proposing a *salario* (massive wage increase) and a *revolución productiva* (productive revolution) to these new announcements which showed that the incoming Peronist government had understood the true objectives of Black Monday. The Peronist government would begin the 'monetarist' restructuring of the state and its class relations.

As Pugliese could not stop the run against the *austral* he was replaced by Jesús Rodríguez (Ambito Financiero, 26-5-1989, p. 1), a young man from the *Coordinadora* -the internal faction of the Radical Party that, despite foreseeing a defeat, was still loyal to Alfonsín. Soon after taking office, Rodríguez implemented a new set of measures to be applied after 10 days suspension of most banking activity. Exchange rate control was re-applied, a crawling peg was announced, the export tax was fixed at 35 per cent for agricultural goods and 20 per cent for industrial goods and public utility rates were adjusted. The Congress approved new taxes which included the suspension of industrial promotion benefits. The exchange rate was fixed at 177 *australes* per dollar (Ambito Financiero, 29-5-1989, p. 1).

During the first ten days of the Rodríguez plan hyper-inflation was at its peak. Price lists in dollar terms, purchases with dollars notes, non-acceptance of credit cards, daily increases of prices, the closure of shops due to the impossibility of determining prices, workers unable to go to work because the transport cost was almost 90 per cent of their salary, and looting were some of the main features of the hyper-inflation process.

From the 24th to the 31st of May the looting became the principal political issue (Ambito Financiero, 31-5-1989, p. 1). Looting was spontaneous. It took place mainly in Rosario, Córdoba, Mendoza and Greater Buenos Aires. The government established a state of siege for 30 days in an attempt to prevent an escalation of violence (Ambito Financiero, 30-5-1989, p. 1). Initially looting was non-violent, women and children merely taking food from supermarkets. However, in Rosario violence increased as shop owners began defending themselves with guns. The police had to be helped by the *Gendarmería* (Frontier Police Corps) to prevent an escalation of violence at Rosario. Bombs in 'the City' at Buenos Aires, in some Radical Party's offices and some Communist Party's offices provoked panic. Violence increased in Greater Buenos Aires, six people died in San Miguel and approximately eighty were injured. In Rosario five people died and hundreds were arrested (Clarín, 1-6-1989, p. 2).

The looting was the workers' reaction to hyperinflation. While the bourgeoisie was speculating against the *austral*, making prices rise, the workers were trying to 'survive'. The looting was the other side of Black Monday. It showed workers' reaction to Black Monday's redistribution of income. It also showed the capacity of the working class to defend its interest independently from the trades union movement: the CGT did not call a general strike nor did it organise a social demonstration. As I will analyse below the CGT was more concerned with the approaching general elections than with the workers situation. Despite this, the workers organised themselves to demonstrate that they would not passively accept any economic strategy. Black Monday and the looting were the two sides of the income distribution struggle in Argentina. They represented the intensification of Argentina's class struggle.



*v. Hyperinflation*

In the first week of June the dollar reached 370 *australes*, the monthly interest rate was over 100 per cent, the CPI for May was 78.5 per cent and the WPI was 103.7 per cent (Ambito Financiero, 8-7-1989, p. 1). These were records even for Argentina's history of high inflation.

The Economist (13-5-1989, p. 95) pointed out that

"At first sight it seems ridiculous to argue that it might do a country good to have, like Argentina, a collapsing currency and a monthly inflation rate of more than 40 per cent. That is equivalent to an annual rate of 6000 per cent, high enough to satisfy the most stringent definition of 'hyperinflation' (...) High-but-stable inflation, though extremely damaging, is tolerable (...) Hyperinflation, on the other hand, is intolerable. At the limit, money ceases to mean anything and transactions are conducted in foreign currency, or by barter. As the economy opts out of the domestic monetary system the government has a chance to start afresh. In the midst of a real crisis (as opposed to the countless phoney crises that preceded it), the government is more likely to be believed. If an election and a change of government is in the offing at just the right time, so much the better".

Argentina seemed to be, according to The Economist, at the right time and at the right stage. Domingo Cavallo<sup>1 1</sup>, who had been appointed by the elected President, Carlos Menem, as Foreign Affairs Minister, agreed with The Economist's point of view. Cavallo advised Menem not to establish an agreement with the Radical government which would undermine Menem's public image. Cavallo thought, as The Economist suggested, that after the hyperinflation process, the Peronist government would be able to apply the, in his opinion, necessary adjustment. Machinea (1990, p. 118) also points out that one of the alternatives could have been to let the

situation explode in order to introduce a completely new program afterwards. However, he states that for the government this was not a viable option since hyperinflation was considered as one of the greatest dangers for the consolidation of democracy. He suggests that after hyperinflation -considering also the general political and social situation- the Radical government would not have the necessary credibility to implement a new economic strategy.

By June, it was clear that the government could not deal with the economic, social and political aspects of the crisis. Alfonsín began a negotiation process to move forward the Presidential hand-over. When Alfonsín and Menem's team were discussing the new date, one of Menem advisors announced that a very high exchange rate would be fixed under the Peronist administration (Página/12, 11-6-1989, p. 3). This provoked a new run against the *austral*. As Menem did not deny this statement, Alfonsín interrupted the negotiation process. On the 12th of June, Alfonsín announced that he would resign from the 30th of June (Clarín, 13-7-1989, p. 2-3).

### III. Alfonsín's economic legacy

Alfonsín's downfall began in September 1987 when the Radical party lost the elections. The government's incapacity to resolve the economic crisis was the cause of its fall. Under Alfonsín, GDP never reached its 1980 level, which represented a fall of 71 per cent from the 1974 level. Table nº 8 shows the performance of the Gross Domestic Product under the democratic regime.



Table nº 8  
Gross Domestic Product  
(1980=100)

1981	93.6
1982	88.8
1983	91.5
1984	93.9
1985	89.8
1986	94.9
1987	97.0
1988	94.5
1989	90.2

Source: Sociedad Rural Argentina (1992) *Indicadores* (Buenos Aires: Sociedad Rural Argentina).

In addition to the fall from 1974 to 1980, under Alfonsín GDP fell a further 10 per cent. Moreover, after the failure of the *Austral* Plan the Radical government could not prevent price increases. In June 1989, the last month of Alfonsín's administration, the CPI was 114.5 per cent and the WPI, 132.3 per cent. In the last twelve months the first index reached 1472 per cent and the second, 1983 per cent. Table nº 9 shows the price evolution under Alfonsín administration.

Table nº 9  
Price indices  
(from December to December)

	1984	1985	1986	1987	1988	1989
CPI	688.0	385.4	81.9	174.8	387.7	4923.8
WPI	585.0	363.9	57.9	181.8	431.6	5386.4

Source: CEPAL (1991) *Notas sobre la evolución de la economía argentina en 1990*, Doc. de Trabajo nº 39 (Buenos Aires: CEPAL).

The table demonstrates that the best performance was in the first year of the *Plan Austral*. As soon as the plan was abandoned prices begun to rise. Regarding the fiscal deficit, the table confirms this tendency.

Table nº 10

## Fiscal Deficit as a percentage of GDP

1984	12.5
1985	5.4
1986	4.3
1987	6.4
1988	6.4

Source: Argentinian Central Bank (*Banco Central de la República Argentina*), unpublished data.

The fiscal deficit also began to rise after dropping 65.6 per cent between 1984 and 1986. As indicated earlier, one of the causes of this rise was the increasing interest payments on the external debt.

Table nº 11

## External debt (US\$ million)

1984	46903
1985	49326
1986	51422
1987	54700
1988	57000

Source: Argentinian Central Bank (*Banco Central de la República Argentina*), unpublished data.

Table nº 12

## Total debt as a percentage of Gross National Product

1984	67.5
1985	84.2
1986	70.5
1987	76.4
1988	66.5
1989	121.9

Source: Organización de Estados Americanos (1992) *Boletín Estadístico de la OEA*, vol II, nº 1-2, January-December 1992 (Washington: OEA, Departamento de Asuntos Económicos y Sociales).



Table nº 13

Interest paid as a percentage of Gross National Product

1984	5.8
1985	8.4
1986	5.8
1987	5.3
1988	3.5
1989	4.0

Source: Organización de Estados Americanos (1992) *Boletín Estadístico de la OEA*, vol II, nº 1-2, January-December 1992 (Washington: OEA, Departamento de Asuntos Económicos y Sociales).

As these tables demonstrate, Argentina's growth potential was severely constrained by the servicing of the external debt. The *Austral* Plan contained inflation and the fiscal deficit, but after its abandonment no substitute measures were found to stem the worsening economic crisis and the deteriorating in workers' conditions.

Table nº 14

Real wages by sector

1986 = 100

	Private Sector	Public Sector
1984	115.83	119.51
1985	112.45	107.05
1986	100.00	100.00
1987	92.06	92.26
1988	88.74	92.73
1989	72.23	84.84

Source: Banco Central de la República Argentina (1992) *Indicadores Económicos* (Buenos Aires: BCRA).

As shown above, the CPI and the WPI indexes increased after the failure of the *Austral*, which, together with the decrease in real wages, produced a decline in the workers purchasing power.

Table nº15  
Purchasing Power by sector  
(1986=100)

	Private Sector	Public Sector
1984	101.62	105.29
1985	98.50	100.17
1986	100.00	100.00
1987	89.63	89.78
1988	81.40	84.98
1989	64.63	67.95

Source: Banco Central de la República Argentina (1992) *Indicadores Económicos* (Buenos Aires: BCRA).

From 1986 to 1987 the purchasing power fell by 10.37 per cent for the private sector and 10.22 per cent for the public sector. This shows that the *disciplinamiento social* achieved by the military dictatorship was intensified under the democratic government. Although the democratic government could not politically subordinate the working class, it maintained its economic subordination. Indeed, the unemployment and underemployment rates confirm that the democratic government did not improve the workers' situation.

Table nº 16  
Unemployment -1- and underemployment<sup>1 2</sup> -2- rates  
(October each year)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
1	5.3	4.6	3.9	4.4	5.9	5.2	5.7	6.1	7.1
2	6.0	6.4	5.9	5.9	7.1	7.4	8.5	8.0	8.6

Source: Banco Central de la República Argentina (1992) *Indicadores Económicos* (Buenos Aires: BCRA).

After the democratic government one dollar cost 560 *australes*. After Black Monday, it rose by 3069 per cent. The interest rate was 84.36 per cent per month. The internal debt was US\$ 3000 million, US\$ 2000 million of bank reserves and US\$ 1000 million of government bonds. The external debt was US\$ 67000 million and the arrears on interest payments reached US\$ 6500 million (Majul, 1990, p. 249).



Domestic investment declined from an average of 21.4 per cent of GDP in the 1970s to 12.2 per cent in 1988. Subsidies from the state to the private sector - such as industrial promotion or tax exemption- represented US\$ 3134 million per year (Verbitsky, 1990, p. 102). The industrial sector's physical output declined by 11.9 per cent from 1974 to 1983; from 1983 to 1988 the growth in production was only 0.6 per cent. From 1974 to 1983, the number of workers employed in manufacturing declined by 39.4 per cent; from 1983 to 1988 the decrease was 5.2 per cent.

Under the democratic government economic stagnation and inequality became more firmly rooted. Thus, the reasons for the CGT's opposition were to be found in the government's incapacity to transform the economic structure and the *disciplinamiento social* implemented by the *Proceso*. Let me now turn to analyse the role of the CGT after the 1987 electoral defeat.

#### IV. The CGT's opposition

After the September 1987 electoral defeat, the replacement of Carlos Alderete by Ideler Tonelli signalled the collapse of the government's alliance with the *grupo de los 15* (Clarín, 12-9-1987, p. 1). It also represented the beginning of a new period of confrontation between trade unions and the government. Finally, it meant that the main objective of the alliance between the government and the *grupo de los 15* -that is, the neutralisation of the CGT's confrontational policy- was defeated. Nevertheless, Alderete had actually achieved his objective: free collective bargaining would begin in 1988 (Beliz, 1988, p. 22).

After Alderete's replacement and the October economic measures, the CGT called a general strike for the 4th of November (La Nación, 5-11-1987, p. 1). The

strike was successful, with almost 90 per cent adherence in the industrial sector (La Nación, 5-11-1987, p. 1). The demonstration at which Ubaldini gave a speech was not so successful -15.000 people attended according to Federal Police estimations (La Nación, 5-11-1987, p. 1). This would deepen internal divisions within the trades union movement over the organisation of general strikes and social demonstrations. As explained above, one of the most important differences between the CGT and the *grupo de los 15* was over the utility of general strikes and social demonstrations in achieving the labour movement's objectives. The *grupo de los 15* had achieved most of its objectives by negotiating with the government, while the CGT's more confrontational policy was much less fruitful. An example was the free collective bargaining legislation achieved by Alderete's appointment which was agreed by the *grupo de los 15* and the government.

Despite these internal divisions, Alfonsín's refusal to meet the CGT's leadership to discuss wage increases (La Nación, 9-12-1987, p. 1) provoked the CGT to organise another general strike for the 8th and 9th of December (La Nación, 10-12-1987, p. 1). The strikes had total adherence in both the industrial and the tertiary sectors (Fraga, 1991, p. 25).

In February 1988, the government provided regulations for the free collective bargaining law which would begin to be applied in March (Clarín, 14-2-1988, p. 2). By April, the government passed the labour legislation which had been opposed by the employers organisations before the September 1987 elections (Clarín, 15-4-1988, p.11). Despite all these measures, the CGT organised another general strike for the 14th of April, demanding economic measures to prevent the rise of inflation -in the first three months of 1988 the CPI increased by 38.2 per cent (Clarín, 9-4-1988, p. 17). The general strike had total adherence mainly in the industrial sector (Fraga, 1991, p. 25). This month also saw a teacher's strike which lasted 33 days seriously disrupting the school year (Clarín, 20-4-1988, p. 2).



After the internal elections of the Peronist Party, the role of the CGT was undermined. There were two Presidential candidates, Antonio Cafiero and Carlos Menem. Cafiero's policies were viewed as a continuation of Alfonsín's policies. Cafiero, as Alfonsín did at the beginning of his government, emphasised the importance of an agreement among the government, the labour movement and the business organisations as an instrument to resolve the crisis (Gaudio *et al*, 1990, p. 224). By this time, Menem's policies were viewed as 'populist'. They promoted a redistribution of income as a tool to achieve economic growth. Menem's policies were based on a massive wage increase (*salarioazo*) which would promote a *revolución productiva* (productive revolution). As said above, Menem later changed his policies to a 'monetarist' approach.

The *sindicalismo peronista* was divided between the two candidates. The CGT supported Cafiero and the *grupo de los 15* supported Menem (Gaudio *et al*, 1990, p. 217). The main agreement between the CGT and Cafiero was that the latter was promoting a 'unilateral moratorium' on the external debt, and an agreement between the government, the trade unions, and the business organisations as a means to attain economic growth (Clarín, 25/25-4-1988).

After Cafiero's defeat, the influence of the CGT was undermined. The *grupo de los 15* and Carlos Menem argued that their victory was a response to the CGT's confrontational policy (Gaudio *et al*, 1990, p. 230). Once again, the *grupo de los 15* affirmed that the CGT's confrontational policy did not achieve the trades union movement's main objectives. Therefore, the CGT decreased its level of confrontation mainly by stopping the organisation of general strikes. Likewise, the CGT began to prioritise the issue of the general elections and therefore became more passive in order to facilitate Menem's electoral campaign. The CGT's new objective was to avoid Menem being accused of giving power to trade unions, an accusation which could be

used by the Radical Party to undermine Menem's image, bringing back memories of Isabel's government<sup>13</sup>.

In August the government launched the *Primavera* Plan. After the launching the CGT began discussing with the government an increase in the 'minimum wage' (*salario mínimo*). As they could not agree on the size of the increase, the CGT called a general strike to be held on the 9th of September (Ambito Financiero, 10-9-1988, p. 1). The general strike was followed by a social demonstration at *Plaza de Mayo*. Although the strike was widely criticised among trade unionists and the Peronist presidential candidate refused to participate in the social demonstration (Clarín, 7-9-1989, p. 2-3), it became the most important action and led to a further general strike, called for the 12th of September (Ambito Financiero, 10-9-1988, p. 1). The meeting at *Plaza de Mayo* ended with a violence previously unseen during Alfonsín's government. The Federal Police were particularly brutal and one hundred people were injured (Ambito Financiero, 13-9-1988, p. 1). After the demonstration, there were accusations between the government, the CGT and the Peronist Party regarding the results of the strike. For the CGT and the Peronist Party, the government agitators had promoted the violent break-up of the demonstration in order to prove that a Peronist government -closely related to trade unions- would represent a return to the violence of the earlier seventies. The government held that the police had to intervene due to looting in the area of the square (Clarín, 14-9-1988, p. 2).

Carlos Menem did not support the general strike of the 12th of September. He argued that the Peronist Party did not agree with the CGT's decision (Gaudio *et al*, 1990, p. 34). The CGT confrontational policy was criticised by the Peronist Party and divided the *sindicalismo peronista*. Due to this, and despite the hyperinflation process and the looting, the CGT did not organise more general strikes or social demonstrations. The CGT became a passive actor.



Despite the CGT's change of policies, there were national strikes. In October railway services were virtually paralysed; postal-workers began a work-to-rule campaign and planned an indefinite strike for December; gas workers went on strike from November; and others sectors such as customs, hospitals, and the prison service organised strikes (Clarín, 5,6,10,15,27-11-1988, p. 1). Thus, despite the neutralisation of the CGT, the Radical government was still unable to politically demobilise the labour movement. The last two years of the Radical government showed the gradual neutralisation of the CGT role by the Peronist Presidential candidate, Carlos Menem. Despite this, the working class was able to organise itself against the consequences of Black Monday. Therefore, the Radical government was unable to politically demobilise not only the the trades union movement but also the working class.

In economic terms this was not the case. Under Alfonsín's government real wages had dramatically fallen; if in January 1984 real wages were 100 in June 1989 they were 55.14. The purchasing power of real wages was, starting from of a base of 100 for January 1984, 44.60 in June 1989 (Garfunkel, 1990, p. 72). Per capita GDP was 12 per cent less in 1988 than that in 1975. In 1975, wages and salaries accounted 53.8 per cent of GDP; in 1983, 41 per cent, and in 1988 only 30 per cent of GDP (Smith, 1990, p. 30).

As the CPI and the WPI began to increase after the failure of the *Plan Austral*, real wages decreased. From 1986 to 1989, the CPI rose by 5911.9 per cent, and the real wage in the private sector decreased by 27.77 per cent and in the public sector by 15.16 per cent<sup>14</sup>. From 1988 to 1989 purchasing power fell by 20.60 per cent for the private sector and 20.04 per cent for the public sector as a result of the hyper-inflation<sup>15</sup>. The situation of the workers was damaged by the failure of the *Plan Austral* and the incapacity of the democratic government to prevent high inflation rates. This damage was done after the overwhelming redistribution of

income at the beginning of the military dictatorship; as said above, from 1974 to 1976 the inflation rate increased by 772.5 per cent while the real wage of the industrial sector fell by 37 per cent. The workers situation deteriorated progressively under both the dictatorship and the democratic government.

By 1989 unemployment and underemployment rates had risen. Combining both rates, the 1989 level reached approximately 16 per cent of the population of working age. Under the military dictatorship the figure had been only 11 per cent. In 1974 industrial unemployment rate was 1.3 per cent; for the construction sector, 2.4 per cent; for the commercial sector, 3.1; and for services, 1.4 per cent. In October 1989, the rates were 6 per cent, 18.1 per cent, 5.5 per cent and 4.4 per cent, respectively (Morales Solá, 1990, p. 293). The labour force was, in 1989, 12.2 million: 7.69 million were employed, 3.6 million were underemployed, and 910000 were unemployed (Página/12, 10-6-1990, p. 11).

From a population of 32 million, 10 million were, after Alfonsín's administration, beneath the 'poverty line' -that is a family income of US\$100 or below per month. Fifteen million were only slightly above the line. In Greater Buenos Aires, out of a population of 7.3 million people, 36.7 per cent of all households -and 44.3 per cent of individuals- lived in poverty. Of the poor householders, 31.3 per cent were 'structurally poor' and 68.7 per cent were *pauperizados* (Smith, 1990, p. 31).

Fifty per cent of the national income was concentrated in the hands of 20 per cent of the population. In 1974, the richest 20 per cent possessed 39.5 per cent of the national wealth, and the poorest 20 per cent, 8.8 per cent. Under Videla the gap widened, the figures being 42 per cent and 7 per cent, respectively. The last year of the dictatorship, the richest 20 per cent reached 47.7 per cent and the poorest 20 per cent took only 5.9 per cent of the national wealth. By 1988 the gap had widened



even further, with figures of 52.4 per cent for the wealthiest fifth, 5.3 per cent for the poorest fifth of the population (Verbitsky, 1990. p. 244).

**Table nº 17**  
**Income Distribution**  
(September each year)

	30 per cent lowest	60 per cent middle	10 per cent highest
1974	11.40	60.60	28.10
1976	12.10	59.80	28.00
1978	10.20	53.70	36.10
1981	10.50	54.50	35.00
1985	9.90	56.80	33.30
1988	9.20	54.90	35.90
1989	7.90	50.50	41.60

Source: Boron, A. (1992) *La pobreza de las naciones. La economía política del neoliberalismo en la Argentina*, mimeograph.

The economic legacy of the Alfonsín's government was a further impoverishment of the working class. The government did not politically demobilise the workers but it did, economically, subordinate them.

The CGT's confrontational policy maintained the politically powerful role of the trades union movement but it could not avoid a deepening of the *disciplinamiento social* begun under the military dictatorship.

## **V. From military rebellions to guerrilla attack**

### *i. The military rebellions*

In January 1988 a second military rebellion occurred, provoked by Aldo Rico's refusal to accept the detention imposed by a military judge (Clarín, 15-1-1988, p. 2). This detention was due to the fact that Aldo Rico had led the former

military rebellion. This time, Rico took an infantry regiment in Monte Caseros, located in the Corrientes province, and repudiated General Caridi's authority. Rico demanded a solution for the human rights violations judgements, since the *Semana Santa's* agreements had not been fulfilled (Clarín, 17-1-1988, p. 2-3). General Caridi was ordered to mobilise a number of key army units from several provincial locations. The repression was periodically interrupted by rains and the information that Rico's followers had laid mines on access bridges -these mines injured three 'loyal' officials (Clarín, 18-1-1988, p. 2-3). After four days, without resisting, Rico surrendered unconditionally (Clarín, 19-1-1988, p. 1).

The reason why Rico failed in his second attempt was that the main objective of the rebellion was his refusal to accept the military court's decision. After the passing of 'due obedience' law the demand for suspending the human rights trials lost most of its followers within the Army. An attack on the Army's hierarchy based on a rejection of a military court's decision did not find many sympathisers. Rico could convince few people that Monte Caseros had any objective other than his own judicial predicament.

After Monte Caseros, 396 members of the Army were accused of undermining the hierarchy of the Army, and 127 out of them were imprisoned (Clarín, 22-1-1988, p. 2). However, the main consequence of the January rebellion was the 'politicisation' of a faction of the *carapintadas*. This was a result of the defeat of Monte Caseros. Rico and his followers understood that either they began to fight against their comrades -taking the risk of losing support when they began to kill- or they began a 'politicisation' process to confront the hierarchy of the Army and to win civilian support. The latter was chosen and so the *carapintadas* started to publicly criticise the Army hierarchy, the economic strategy of the government, education policy, increasing poverty, corruption, and the lack of political leadership. Different sectors approached the *carapintadas*, from the nationalist right-wing



groups to the *Montoneros*. Rico became a political actor who began to play a role inside the democratic game (Acuña and Smulovitz, 1991, p. 25).

In April, new defense legislation was approved (Ambito Financiero, 14-4-1988, p. 10). One of the objectives of this law was to annul the previous legislation established by the military dictatorship of Lt. General Juan Carlos Onganía. Onganía's law represented the institutionalisation of the National Security Doctrine which defined the participation of the Armed Forces in internal matters. This law gave the Armed forces the 'right' to fight against the armed urban guerrillas, and to concentrate their intelligence services on the investigation of Argentinian citizens. This law was supposed to be the juridical framework of State Terrorism. Therefore, the new defense legislation attempted to abolish Onganía's law in order to prevent military coups and human rights violations. The new law defined a different role for the Armed Forces. It established that the Armed Forces would act to confront aggressions of *external* origin. It also refused a military seat on the *Consejo de Defensa Nacional* (National Defence Council), constituted by the vice-president, ministers and the head of the Intelligence Service (Ambito Financiero, 14-4-1988, p. 10). Finally, the law clearly stated that "matters related to the country's domestic politics can not, in any case, constitute working hypotheses for military intelligence organisms" (Latin American Weekly Report, 28-4-1988, p. 2). The main objective of this law was to limit the actions of the Armed Forces to the defence of the country from external aggressions and to avoid their participation in domestic political matters -which was, historically, their main activity.

At the end of 1988, another personal situation provoked a military rebellion. This time, Colonel Mohamed Ali Seineldín, who was in Panama training a special force of Manuel Noriega's Army, began a rebellion due to the Army's refusal to promote him to General (Clarín, 5-12-1988, 4). Seineldín was supposed to be the 'moral leader' of the *carapintadas*, therefore the refusal was viewed as another measure to neutralise the role of the movement within the Army. The 30th of



November, members of the *Albatros* unit of the *Prefectura Naval* left their base armed and in combat gear (Clarín, 1-12-1988, p. 2-3). Two days later they took the infantry school at *Campo de Mayo*, and announced that they were under Seineldín's orders. The Colonel left Panama to lead the rebellion in Buenos Aires (Clarín, 5-2-1988, p. 4). The *carapintadas*' main demand was an amnesty for those accused of human rights violations and of participating in the previous rebellions. General Caridi, in a meeting with Seineldín, accepted this demand as a general demand of the Army. Alfonsín refused to establish an amnesty, and ordered the Army to quash the rebellion (Clarín, 6-12-1988, p. 2-3). The Congress called for an emergency session which was attended by several ambassadors showing their support for the democratic government (Clarín, 6-12-1988, p. 2). The CGT and business organisations called for a general strike to support democracy while the population was demonstrating against the rebellion in the main squares of Argentina (Clarín, 6-12-1988, p. 2-3).

Once the repression began, the rebels went from *Campo de Mayo* to *Villa Martelli* barracks, located in a suburb close to Buenos Aires. Once at *Villa Martelli*, Seineldín announced his demands which went from budget increases to the establishment of an amnesty. General Isidro Cáceres was leading the repression, when he arrived with his troops at *Villa Martelli*, he -with the approval of General Caridi- went into the barracks to meet Colonel Seineldín (Clarín, 6-12-1988, p. 1). Outside the barracks, there was a social demonstration against the *carapintadas*. This provoked fights between the population and the *carapintadas*, leaving three people dead and forty three injured (Clarín, 5-12-1988, p. 5). As Argentina was waiting for the fight to start, General Caridi announced that the operations had ended (Clarín, 6-12-1988, p. 1).

Soon after the end of the rebellion, the *carapintadas* publicly announced the terms of the agreement reached with General Cáceres: the replacement of General Caridi by General Cáceres before the 23rd of December, a wage increase, that the



*carapintadas* not be judged, the recognition of the 'dirty war' as a positive event and a general amnesty between the elections and the change of administration (Acuña and Smulovitz, 1991, p. 27).

After *Villa Martelli*, the hierarchy of the Army decided a new strategy to neutralise the *carapintadas*' power. It decided to make the main demands of the *carapintadas* its own, leaving the latter with only the plea that they be spared from trial. Therefore, the *carapintadas* would only deal with their particular juridical situation, while the Army as a whole would lead the negotiations with the government to achieve the main demands (Acuña and Smulovitz, 1992, p. 28). The government, in order to decrease the level of confrontation with the Army, increased the wages of the members of the Armed Forces and replaced General Caridi by General Gassino, a follower of Caridi's strategy (Acuña and Smulovitz, 1992, p. 28).

## *ii. The guerrilla attack*

The reappearance of the guerrilla issue would, finally, improve the public image of the Armed Forces and give them, once again, a role in the internal security of the country. The 23rd of January, an armed group occupied the barracks of an infantry regiment in *La Tablada* (Ambito Financiero, 24-1-1989, p. 1). The attack was led by the *Movimiento Todos por la Patria* -MTP- (Movement of All for the Fatherland) constituted mainly by members of the ERP (People's Revolutionary Army) one of the main guerrilla movements of the earlier seventies. Apparently, Enrique Gorriarán Merlo, a well known ERP member who had collaborated in the Nicaraguan Revolution and is supposed to have killed Anastasio Somoza in Paraguay, was leading the attack and escaped before the defeat (Página/12, 25-1-1989, p. 6). Paradoxically, the MTP was known as an organisation for the defense of human rights. One of its leaders, Jorge Baños, was a lawyer who had represented relatives of *desaparecidos* and had promoted the defense of human rights. Baños was found dead

in *La Tablada* (Página/12, 25-1-1989, p. 6). A few days before the attack, Baños had appeared on the state TV channels alleging an alliance between the *carapintadas* and Menem against Alfonsín's government (Página/12, 20-1-1989, p. 6). Due to this, Menem accused Alfonsín's government of being connected with the guerrilla attack, as a means of undermining Menem's possibilities of winning the elections (Ambito Financiero, 27-1-1989, p. 6).

The real objective of the attack was never clarified. As the survivors explained, the objective of the attack was to avoid a new military rebellion. However, documents suggested that it tried to simulate a military rebellion, scattering pamphlets praising Colonel Seineldín. Once the participants had taken the barracks they would call for rebellion, announcing that they had become the representatives of the 'popular resistance' since they had managed to abort the military rebellion. Finally, they would called for a 'popular' demonstration at *Plaza de Mayo* to ask Alfonsín to place himself at the head of this 'armed popular movement' (Página/ 12, 25-1-1989, p. 6-9). The attack took everybody -including the government and the Intelligence Service- by surprise, and afterwards it was difficult to understand the reasons behind the attack. It was easy to identify the bodies since most of them went to organise the 'armed popular movement' with their credit cards in their pockets, a quite unusual detail for a guerrilla attack (Página/12, 25-1-1989, p. 6).

The real victour of *La Tablada* attack was the Army. First, the Generals repaired their image as soldiers after having been accused by the *carapintadas* of being 'desk Generals'. Second, the Army would, again, participate in internal conflicts and internal intelligence activities. Finally, as the organisations for human rights had been discredited by the participation of some of their members in the attack, the Army began to accuse these organisations of guerrilla activities (Página/12, 24-1-1989, p. 1).



A few days after the attack, Alfonsín created the *Consejo Nacional de Seguridad* (National Security Council) constituted by the Ministers of Defense, Home Affairs and Foreign Affairs, the head of the Intelligence Services, the chiefs of staff of the three Armed Forces and the chief of the Armed Forces (Ambito Financiero, 26-1-1989, p. 1). The objective of the Council was to advise the government on guerrilla matters. Alfonsín also established by decree the permission to use the Armed Forces against internal attacks that could not be repelled by the police or by security forces (Ambito Financiero, 26-1-1989, p. 1). The decree stated that guerrilla actions whose objective was the destruction of the constitutional order would warrant defense measures "that will be graduated, depending upon the magnitude of the aggression" (Pion-Berlin, 1991, p. 568). This represented a setback for the government's position, which had been expressed in the Defense Law approved in April 1988. No one had so far done so much to achieve the 'vindication' of the 'dirty war' and the Armed Forces than the MTP and its incomprehensible attack to *La Tablada*.

Between the guerrilla attack and the change of administration, the conflict with the Armed Forces was at an impasse. The amnesty question would arise in the meetings between Alfonsín and Menem. The former wanted Menem to sign a joint decree establishing the amnesty for officials accused, but yet not condemned, of human rights violations. Therefore, the Commander-in-Chief would remain in prison. Menem wanted to include the *carapintadas*, something that Alfonsín would not accept since they had threatened the democratic regime three times in two years. Nevertheless, Menem did not accept Alfonsín's proposal mainly because he wanted to keep this measure for his government and to monopolise its benefits. Such decision would facilitate Menem's relationship with the Armed Forces (Acuña and Smulovitz, 1991, p. 34).

*iii. The gradual neutralisation of the 'carapintadas' power*

After *Villa Martelli*, the *carapintadas* had lost support within the Armed Forces. Their confrontation was based on personal grievances rather than general demands for the Armed Forces. The 'due obedience' law neutralised the role of the *carapintadas* since it had given them what they were requiring: the end of human rights trials.

In order to avoid the collapse of the democratic system, Alfonsín made concessions to the Armed Forces. From the *Punto Final* to 'due obedience' he conceded more than he actually wanted to. Aldo Rico's example showed the outcome of these concessions. He threatened democracy with the *Semana Santa* rebellion and then achieved his real objective: the 'due obedience' law and the end of the trials. As he achieved his objectives the *carapintadas* movement lost its power, evident in the failure of *Monte Caseros*. The only way to have a 'voice' was, then, by joining the 'democratic game'. The cost of Aldo Rico's integration into the democratic process was very high: the freedom of torturers and killers. However, the earlier defeat of Alfonsín's objectives -that is, the *Consejo Supremo* sentence and the Sapag amendment- rendered the relationship with the Armed Forces very difficult. This defeat meant that Alfonsín could no longer control the policy towards the Armed Forces. His government started to react rather than to decide. The defeat also signified that Alfonsín could not move quickly and decisively when, at the beginning of his government, public opinion supported him (Huntington, 1993, p. 224).

Gradually the economic crisis became more important than human rights violations. Public opinion turned against the government. The economic crisis also strained the government's relationship with the trade unions. Thus, Alfonsín did not have significant domestic support to confront the Armed Forces. He could not maintain an open conflict with the Armed Forces indefinitely. However, he was also unable to put an end to all human rights trials. Alfonsín faced a dilemma: to prosecute



and to punish or to forgive and forget. He chose a compromise path between these extremes. He prosecuted and punished the Commanders-in-Chief, while excusing the crimes of low ranking officials. What became difficult, or almost impossible, was to achieve domestic support to forgive low ranking officials. When -through the CONADEP report and the public judgement of the *Juntas*- the truth about the 'dirty war' emerged, Argentinian public opinion, the organisations of human rights, and political parties -among them, the Radical Party- required, through social mobilisations, the punishment for low rank officials. The Judiciary, anyway, did just this, through point 30 of the sentence for the Commanders-in-Chief.

It was after the Easter rebellion when Alfonsín achieved his objective of passing the 'due obedience' law. However, this undermined his power over the Armed Forces and his political credibility.

The concessions that Alfonsín made have to be understood in the context of Argentina's history and the circumstances of the new democracy. Without domestic and trade unions support, due to the economic crisis, an open conflict with the Armed Forces seemed to be a real threat to the consolidation of democracy. For Alfonsín, it was crucial that during the Easter rebellion, he obtained the support of the CGT. If the CGT had not repudiated the rebellion, the latter could have finished in a very different fashion. Although the appointment of Alderete complicated the economic strategy, Alfonsín believed that this was necessary in order to consolidate democracy<sup>16</sup>.

The economic crisis reduced Alfonsín's margin of manoeuvre: his domestic support was undermined and the conflict with the trade unions was intensified. Therefore, in order to consolidate democracy, he had to make some concessions. His policy towards the Armed Forces gave many concessions. I believe that after having imprisoned the Commanders-in-Chief, he could not go further in his confrontation with the Armed Forces without threatening democracy. The economic crisis and trade

union opposition limited Alfonsín's ability to maintain an open conflict with the Armed Forces.

## VI. Conclusion

During its last two years, the Radical government did not attempt to resolve the crisis of the Argentinian state, intensifying the economic crisis and accelerating the implementation of a 'monetarist' restructuring of the state. The government deepened the economic subordination of the working class without politically demobilising it. Finally, it managed to prevent the seizure of state power by the Armed Forces. The consolidation of democracy was its main achievement. However, democracy was consolidated by deepening the military dictatorship's *disciplinamiento social*. In this sense, the military dictatorship succeeded since its economic structural reform and the *disciplinamiento social* lasted longer than the dictatorship itself, and the democratic government succeeded since democracy was consolidated. By the end of the first democratic government, although the crisis of the Argentinian state was acute, one of its main political features had been modified: the democratic regime was not threatened by the Armed Forces.

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<sup>1</sup> Interview with José Luis Machinea, 25-10-1993, Buenos Aires.

<sup>2</sup> The current account deficit amounted US\$ 4236 million (Banco Central de la República Argentina, unpublished data).

<sup>3</sup> Machinea points out (1990, p. 71) that from the second quarter of 1987 to the second quarter of 1988 international prices rose around 30 per cent mainly as a result of the drought in the US and the large devaluation of the dollar in the two previous years. This has a beneficial effect in the balance of payments, however as



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Argentina 'eats' the same goods that exports, it also has a negative impact on food prices in the domestic market.

<sup>4</sup> Carlos Menem, a lawyer from the University of Córdoba, belonged to the non-union wing of the Peronist Party which is particularly strong in the provinces. He was three times governor of La Rioja. He had been imprisoned under Videla's presidency and re-arrested in 1982 for joining an anti-government demonstration. Menem, together with Antonio Cafiero and Carlos Grosso, represented the Peronist *Renovación*, which one of its main pillars was to be a non-union sector of Peronism. Menem and Cafiero wanted to be the Peronist presidential candidate for the 1989 general election. For the first time in its history, on the 9th of July of 1988, Peronism nominated its presidential candidate by direct primary election. Cafiero had the support of the CGT, while Menem was supported by *los 15*. Menem obtained 53 per cent of the total vote cast and Cafiero, 46 per cent (McGuire, 1992, p. 48).

<sup>5</sup> Interview with Adolfo Canitrot and José Luis Machinea, 19-10-1993 and 1-11-1993, respectively, Buenos Aires.

<sup>6</sup> As indicated earlier, Domingo Cavallo was President of the Central Bank during the last period of the military dictatorship. He implemented the last step of the nationalisation of the private external debt.

<sup>7</sup> Most of the enterprises were those which constituted the group of *Capitanes de la Industria* such as Grupo Macri, Loma Negra, Grupo Bulgheroni as well as transnational corporations as Bunge y Born and Techint.

<sup>8</sup> The *Grupo de los Ocho* succeeded the *Grupo de los Once*, it was constituted by the UIA, CAC, ADEBA, Chamber of Construction, Commerce Stock, Union of the Construction, SRA and ABRA.

<sup>9</sup> He was Economics Minister during the military dictatorship, under Galtieri's presidency during the Malvinas war.

<sup>10</sup> Roberto Alemann explained the reasons why the liberalisation was 'expected' by the economic establishment on an article in *La Nación*, 7-8-1988, p. 1, Suplemento Económico.

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<sup>11</sup> After the failures of his first economic strategies, Menem would name Domingo Cavallo as Economics Minister.

<sup>12</sup> 'Under-employees' (*subempleados*) means those who work less than eight hours per day. They are also without any kind of social security since they are 'black employees' (*trabajadores no efectivizados*).

<sup>13</sup> For an excellent analysis of the role of the trade unionists between 1973-1976 see Torre (1989).

<sup>14</sup> Calculated from table nº 9 and nº14.

<sup>15</sup> Calculated from table nº 15.

<sup>16</sup> Interview with José Luis Machinea and Adolfo Canitrot, 25-10-1993 and 19-10-1993, Buenos Aires.



## Conclusions

### I. Implications for the state theory debate

The analysis of state theory has showed the inability of pluralist, realist, and some Marxist approaches -namely the Miliband/Poulantzas debate- to conceptualise the capitalist state, its relation to economic policy and to global economy, as well as the notion of crisis.

This thesis shows that in order to conceptualise the capitalist state, the usual distinction which orthodox political science draws between 'economics' and 'politics' must be reassessed. Indeed, to fully understand the development of the Argentinian capitalist state, the analysis must look at the state as a social relation which expresses the instability arising from capital-labour relation. An 'economic' analysis of the Alfonsín government is misplaced, in the sense that it loses the conceptualisation of the barrier represented by the strength of the working class for the successful implementation of economic reforms. In addition, a 'political' analysis loses the consequences of the economic crisis and the constraint of the external debt. Thus, this thesis argues that the capitalist state, understood as a social relation offers, a more productive framework for the analysis of contemporary crisis.

This conceptualisation of the capitalist state also includes a crucial feature, that is the notion of class struggle. This thesis indicates that class struggle not only impinges on the development of the capitalist state but that the state itself is an aspect and a site of class struggle. Indeed, the income distribution struggle between Argentina's international creditors and its upper bourgeoisie, and the working class was the ultimate reason why the Radical government was unable to resolve the crisis of the Argentinian state.

Finally, this thesis suggests that it is indispensable to view 'the state' as an aspect of an international state system in the context of global economy. It affirms

that the capitalist state can no longer be studied in isolation. This is clearly demonstrated by the analysis of the Alfonsín government. Indeed, the external debt crisis, a consequence of the globalisation of capital, constrained the decision making capacity of the Radical government. The debt crisis was subsequently employed as a means of imposing, and legitimising the imposition of 'monetarism' upon Latin American countries. Thus, the development of the capitalist state must be studied in relation to the development of the global economy itself.

Regarding the notion of crisis, I have sought to show that the conceptualisation of crisis as either 'economic' or 'political' is misplaced. Crisis expresses the instability of the labour-capital relation on which capitalist society is based. Thus, the Argentinian crisis must be analysed as a crisis of the Argentinian state, a crisis of a particular historical form of class domination.

Hence, theoretically, this thesis indicates the need for a conceptualisation of the capitalist state, its relation to the global economy, and of the notion of crisis of the capitalist state. This conceptualisation is still being developed within the Marxist tradition but it will become more sophisticated through empirical studies such as this.

## II. Conclusions on the crisis of the Argentinian state

### *a success of the 1976 military dictatorship*

The military dictatorship attempted to resolve the crisis of the capitalist state through economic structural reform and State Terrorism. It attempted to modify the role of the state and its class relations. State Terrorism intended to politically demobilise the working class and end the armed urban guerrilla campaign.



The state was viewed as a barrier to the resolution of the economic crisis of the 1970s. The first tool to undermine its economic role was the 1977 financial reform which liberalised the financial market. Likewise, the undermining of the industrial sector, which had been promoted by the state during the 1950s and 1960s, was another means of decreasing the direct economic role of the state. Finally, the privatisation and closing down of state enterprises was also intended to cut down the participation of the state as an actor in the economy. These measures were an attempt to restructure the state and its relation to the economy according to the 'monetarist' approach. The ultimate objective was to give to the market the power to discipline society.

The economic reform of 1976 also modified wider class relations. In general its aim was to economically subordinate the working class. Its specific objective was to prevent a return to Peronism. To this end, by dismantling the industrial sector, the military dictatorship undermined the economic power of the industrial working class. The process of *pauperización*, *desasalarización* and *terciarización* increasingly subordinated the working class to market discipline.

Likewise, State Terrorism was not only directed at the armed urban guerrilla movement but also at the working class and the trades union movement. Through State Terrorism, the military dictatorship achieved a temporary political demobilisation of large section of the workers.

Thus, the economic structural reform undermined the Keynesian role of the state as the regulator of the economy, and the institutionalised economic and political power of the working class. The military government thereby attempted to implement a 'monetarist' restructuring of the state and of its class relations. In this sense, the military dictatorship, through confrontation intended to directly resolve Argentina's crisis situation. However, the economic reform could neither prevent high inflation rates nor reduce the fiscal deficit. Moreover, one of the features of the

economic reform was the increase of external debt. By the end of the military dictatorship, Argentina had difficulty in servicing its external debt and negotiations began with the IMF. In this respect therefore the military dictatorship was unsuccessful.

Nevertheless, the 1976 military dictatorship did achieve many of its political objectives: the political subordination of the working class, and the elimination of Peronism, an alliance between the workers and the 'domestic' bourgeoisie. The last point is especially significant. The economic structural reform was an attempt to undermine the role of the 'domestic' bourgeoisie by promoting the concentration of capital in the biggest conglomerates at the expense of small and medium size companies. The political demobilisation of the workers seemed to be temporary since, under the democratic government, the trades union movement and the working class possessed the possibility of blocking state policies. However, the economic subordination of the workers lasted longer than the dictatorship itself, and thus can be considered as an achievement of the military dictatorship. This is also the case regarding the role of the 'domestic' bourgeoisie. The study of the democratic government shows that the concentration of capital in the biggest conglomerates could not be modified. Likewise, the Peronist movement did not win the 1983 general elections and the Peronism of the 1990s seems to be very different from that based on an alliance between the workers and the 'domestic' bourgeoisie. Indeed, Carlos Menem is currently continuing the 'monetarist' restructuring of the state which seems to be the culmination of developments started by the military dictatorship.

Moreover, one of the main objectives of the dictatorship was to defeat the armed urban guerrilla movement. Through the implementation of State Terrorism, the armed urban guerrilla 'disappeared' from Argentina's political scenario. Indeed, the armed urban guerrilla, despite the isolated attack of 1989, did not have any significance during the 1980s. In this sense the military dictatorship achieved another political objective.



Thus, one of the conclusions of this thesis is that the military dictatorship, despite being unable to control high inflation and to reduce the fiscal deficit, did, in fact, achieve its political objectives. Despite the defeat of the Malvinas war, the high inflation rates, the high fiscal deficit, and the 'horrors' of the 'dirty war', the 1976 military dictatorship achieved a 'successful' and bloody partial restructuring of political relations in Argentina. The legacy of its economic structural reform also constrained the incoming democratic government. I suggest that the economic legacy of the dictatorship was constituted by a huge external debt, a high concentration of capital, and the impoverishment of the working class.

## *ii. The paradoxical legacy of the democratic government*

The main political objective of the democratic government was the consolidation of democracy. It also attempted to politically demobilise the trades union movement and the Armed Forces. It attempted to demobilise the trades union movement since the Radical Party viewed the movement to be a 'threat' to democratic consolidation due to its authoritarian roots, and its past record in blocking state policies. It also attempted to undermine the political role of the Armed Forces and to bring them to trial due to the human rights violations committed during the military dictatorship.

The Radical government did not initially have a specific strategy to deal with the main problems facing the Argentinian economy. Alfonsín attempted to apply an economic strategy similar to that of the 1963 Radical government. This strategy soon proved to be unable to cope with the pressures facing the Argentinian economy in the 1980s.

*a. The Radical government's inability to resolve the economic crisis*

In 1983, the economic crisis was characterised by the burden of the external debt, high inflation rates and a high fiscal deficit. The external debt not only constrained economic growth but also limited the options available to deal with the economic crisis. The external debt did not threaten democracy, but it did impose a 'monetarist' restructuring of the state as the first step to the consolidation of democracy. In this sense, the debt constrained the decision making policy choices of Latin American governments. The external debt crisis gave to the IMF and the World Bank a significant role as regulators of the domestic economy of the debtor countries. This thesis demonstrates that the economic 'u-turn' of the Radical government was in large part a consequence of the pressure from international creditors to service the debt. There was no choice for a liberal democratic government other than to pay the debt and to apply an IMF plan. Regarding this dilemma, the Radical government chose an alternative path: it neither fully applied nor fully rejected an IMF plan. This alternative solution confronted the government with the trades union movement which demanded a full rejection of an IMF plan, and with the international creditors who demanded a full implementation of an IMF plan. Together the two actors were able to block state policies and finally provoked Alfonsín's downfall.

The external debt constrained the decision making policies of Alfonsín's government. In addition, the 'monetarist' restructuring of the state, which according to the international creditors was *the* solution to the economic crisis, could not be fully or even partially applied due to the power of the working class to block state policies. Thus, in the context of the external debt crisis Alfonsín was constrained by the incompatible demands of the international creditors and the working class.

The high inflation rates and the high fiscal deficit were significant features of the economic crisis. Inflation is the monetary expression of the income distribution struggle. The fiscal deficit, which caused high inflation rates, was a consequence of



the burden of the external debt, tax evasion, and state subsidies to the private sector. It is the monetary expression of the appropriation of wealth by the international creditors and the wealthiest sector of Argentina's population. Inflation was also understood as a cause of wage increases. However, the thesis demonstrates that the workers rather than provoking inflation were quite often reacting to it. The government was able to control the inflation rate, while it was unable to reduce the fiscal deficit. The government did not confront the wealthiest sector of Argentina's population and the international creditors, but it did maintain and deepen the economic subordination of the workers. Thus, the Radical government began to gradually implement a 'monetarist' restructuring of the state, deepening the *disciplinamiento social* of the military dictatorship.

The downfall of the Radical government was caused by the pressures from the international creditors and the upper bourgeoisie for the full implementation of the 'monetarist' restructuring, and by the barrier presented by the working class to such a restructuring.

#### *b. The strength of the trades union and the working class*

The Radical government could neither control nor demobilise the trades union movement. In this sense, the political demobilisation of the trade unions achieved by the military dictatorship was only temporary. However, the trade unions could not avoid a deepening of the economic subordination of the working class. Nevertheless, they did achieve most of their objectives: most notably the free collective bargaining legislation, the enlargement of strikers rights, and the participation of the trade unions in the management of the Health Service Funds (*Obras Sociales*). They also achieved short-term objectives, like many wage increases, which undermined the government's economic strategy. Thus, the trade unions, however unable to prevent a deepening in the economic subordination of the workers, proved to be able to achieve

their main organisational objectives and to block state policies. Between 1983 and 1988, the strength of the trade unions was the ultimate barrier to a 'monetarist' restructuring of the state and its class relations.

However, after the Peronist internal elections, the CGT's confrontational policies were neutralised by the Peronist Presidential candidate who did not support the CGT strategy. Thus, the last period of the democratic government saw the exploitation of the divisions within the working class and the trades union movement as the basis upon which to secure their political demobilisation. Indeed, Carlos Menem, by dividing the *sindicalismo peronista* achieved, during the last period of the Radical government, its political demobilisation. Carlos Menem was preparing the ground for his 'monetarist' restructuring of wider class relations.

*c. The Radical government's success: the political demobilisation of the Armed Forces*

The Radical government modified an historical feature of the crisis of the Argentinian state. Historically, the response to the crisis of the Argentinian state was the seizure of the power of the state by the Armed Forces. This was notably the case of the 1966 and 1976 military dictatorships. As the democratic governments of 1963 and 1973 were unable to resolve the crisis, the Armed Forces, through military coups, took office in order to impose 'their' order. Despite the fact that the 1983 democratic government was also unable to resolve the crisis, the Armed Forces could not successfully threaten democratic stability. Alfonsín's policies towards the Armed Forces not only discredited them but also aggravated their internal divisions. This secured their political demobilisation and constituted the first step towards the consolidation of democracy. By the end of the democratic government, although the economic crisis and class conflict had deepened, the Armed Forces did not attempt to



overthrow the democratic government. The Armed Forces were discredited and internally divided due to Alfonsín's policies.

I argue that democracy was maintained due to Alfonsín's policies towards the Armed Forces. Even taking into account the international wave of democratisation, I suggest that Alfonsín's policies undermined the historically powerful role of the Armed Forces, mainly by the acknowledgment of the 'dirty war' through the 1985 public judgement on the *Juntas Militares* and the publishing of the *Comisión Nacional de Desaparición de Personas -CONADEP-* report. These policies deepened the internal division of the Armed Forces rendering them unable to act as a political alternative. However, the degree of concessions granted to the military seemed to undermine Alfonsín's earlier achievements. These concessions were made to guarantee Alfonsín's objective of consolidating democracy. Alfonsín argues that in order to defend human rights which had been violated in the past, he thought he was threatening human rights in the present and the future (Alfonsín, 1992, p. 91). In other words, he did not want to put democracy at risk today for the defense of the human rights violations carried out under the military dictatorship.

The Radical government was unable to resolve its economic crisis or politically demobilise the trade unions, although it partially achieved its objectives with regard to the Armed Forces. By the end of Alfonsín's government, Argentinian society had considerable social divisions. Nevertheless, all were free to speak, to demonstrate for and against the government, to organise themselves in political parties or social movements, to publish without censorship, defend rights, and vote to choose Argentina's government. Paradoxically the Alfonsín government presided over a deepening of the military dictatorship's *disciplinamiento social* accompanied by the consolidation of democracy: democracy was consolidated but in a context of increasing poverty. Human rights however were no longer violated in Argentina. For a country with a history of dictatorships and human rights atrocities, this was not a secondary issue. This was Alfonsín's main achievement.

## APPENDICES



Appendix one

Argentina's main economic indicators

GDP growth (percentages)

1970	5.4
1971	4.8
1972	3.1
1973	6.1
1974	5.7
1975	(0.5)
1976	(0.5)
1977	6.3
1978	(3.3)
1979	6.5
1980	1.0
1981	(7.0)
1982	(5.8)
1983	2.6
1984	2.2
1985	(4.6)
1986	5.8
1987	1.8
1988	(3.0)
1989	(4.6)

Source: Argentinian Central Bank (*Banco Central de la República Argentina*), unpublished data.

() means negative

Inflation rate (percentages)

1970	21.7
1971	39.1
1972	64.1
1973	43.7
1974	40.0
1975	335.1
1976	349.0
1977	160.0
1978	169.0
1979	140.1
1980	87.5
1981	131.2
1982	209.7
1983	433.6
1984	686.8
1985	385.4
1986	81.9
1987	174.8
1988	387.7
1989	4.923.3

Source: National Institute of Statistics and Census (*Instituto Nacional de Estadísticas y Censos, INDEC*), unpublished data.

Fiscal Deficit as a percentage of GDP

1976	11.7
1977	4.7
1978	6.5
1979	6.5
1980	7.5
1981	13.3
1982	15.1
1983	15.2
1984	12.5
1985	5.4
1986	4.3
1987	6.4
1988	6.4

Source: Argentinian Central Bank (*Banco Central de la República Argentina*), unpublished data.



**National income, saving and investment (percentages of GDP)**

	GDP	National Income	Consumption	National Savings	External Savings	Gross Domestic Investment
1980	100	100.0	83.2	16.8	6.9	23.7
1981	100	97.7	85.4	12.3	7.1	19.4
1982	100	92.6	80.3	12.3	4.1	16.4
1983	100	90.9	81.0	9.9	4.4	14.3
1984	100	91.6	83.7	7.9	4.3	12.4
1985	100	90.4	82.1	8.4	2.0	10.3
1986	100	90.8	83.8	6.8	4.7	11.6
1987	100	90.1	83.1	7.0	6.1	13.0
1988	100	90.3	80.6	9.7	2.8	12.5

Source: Machinea, J. (1990) *Stabilisation under Alfonsín's Government: a Frustrated Attempt* (Buenos Aires: CEDES).

**Terms of Trade (1970=100)**

1970	100.0
1971	113.3
1972	125.3
1973	141.9
1974	113.4
1975	95.2
1976	89.5
1977	93.6
1978	91.9
1979	100.2
1980	117.7
1981	124.6
1982	105.2
1983	101.9
1984	110.3
1985	95.0
1986	80.8
1987	69.4
1988	76.9

Source: World Bank (1989) *Argentina: Reforms for Price Stability and Growth* (Washington: World Bank).

**Trade Balance (current US\$ million)**

	<b>Exports</b>	<b>Imports</b>	<b>Trade Surplus</b>
1970	1773	1694	79
1971	1740	1868	(128)
1972	1941	1905	36
1973	3266	2229	1037
1974	3931	3635	296
1975	2961	3946	(985)
1976	3916	3033	883
1977	5655	4165	1490
1978	6399	3834	2565
1979	7813	6711	1102
1980	8020	10539	(2519)
1981	9143	9430	(287)
1982	7626	5337	2289
1983	7836	4504	3332
1984	8107	4585	3522
1985	8396	3814	4582
1986	6852	4724	2128
1987	6360	5819	541
1988	9133	5322	3811
1989	9577	4201	5376

Source: Secretaría de Industria y Comercio Exterior (1990) *Boletín de Comercio Exterior* (Buenos Aires: Ministerio de Economía).

( ) means negative

**Balance of payments (current US\$ million)**

	<b>Trade Surplus</b>	<b>Financial Service Surplus</b>	<b>Current Account Surplus</b>
1970	79.1	(225.5)	(158.9)
1971	(127.7)	(255.9)	(388.7)
1972	36.4	(333.6)	(222.9)
1973	1036.5	(394.4)	720.7
1974	295.8	(333.4)	127.2
1975	(985.2)	(429.6)	(1284.6)
1976	883.1	(492.5)	649.6
1977	1409.3	(578.5)	1289.9
1978	2565.8	(680.8)	1833.6
1979	1109.9	(920.0)	(536.4)
1980	(2519.2)	(1531.4)	(4767.8)
1981	(287.0)	(3699.7)	(4714.0)
1982	2286.8	(4718.5)	(2657.7)
1983	3320.0	(5407.9)	(2437.5)
1984	3523.0	(5712.0)	(2390.9)
1985	4351.0	(5305.0)	(952.8)
1986	1555.0	(4416.0)	(2859.0)
1987	257.0	(4485.0)	(4236.0)
1988	3550.0	(5181.0)	(1631.0)

Source: Argentinian Central Bank (*Banco Central de la República Argentina*), unpublished data.

( ) means negative



External debt (US\$ million)

	<b>Total</b>	<b>Public</b>	<b>Private</b>
1975	7875	4021	3854
1976	8279	5189	3090
1977	9678	6044	3634
1978	12496	8357	4139
1979	19034	9960	9074
1980	27162	14459	12703
1981	35671	20024	15703
1982	43634	28616	15018
1983	45069	31709	13360
1984	46903	36139	10764
1985	49326	39868	8444
1986	51422	44000	7400
1987	54700	nd	nd
1988	57000	nd	nd

Source: Argentinian Central Bank (*Banco Central de la República Argentina*), unpublished data.

Total debt as a percentage of Gross National Product

1980	48.4
1984	67.5
1985	84.2
1986	70.5
1987	76.4
1988	66.5
1989	121.9

Source: Organización de Estados Americanos (1992) *Boletín Estadístico de la OEA*, vol II, nº 1-2, January-December 1992 (Washington: OEA, Departamento de Asuntos Económicos y Sociales).

Service Payment on the Total External Debt (US\$ million)

1981	5391
1982	4975
1983	6805
1984	5197
1985	6089
1986	6741
1987	6244
1988	5057
1989	5237

Source: Wilkie, J (ed) (1993) *Statistical Abstract of Latin America*, vol. 30, part II, (Los Angeles: UCLA)

Service Payments on the Interest of the Total External Debt

1981	3441
1982	3581
1983	5438
1984	4373
1985	5071
1986	4302
1987	4056
1988	3146
1989	2128

Source: Wilkie, J (ed) (1993) *Statistical Abstract of Latin America*, vol. 30, part II, (Los Angeles: UCLA)

Interest Paid as a Percentage of Gross National Product

1980	4.2
1984	5.8
1985	8.4
1986	5.8
1987	5.3
1988	3.5
1989	4.0

Source: Organización de Estados Americanos (1992) *Boletín Estadístico de la OEA*, vol II, nº 1-2, January-December 1992 (Washington: OEA, Departamento de Asuntos Económicos y Sociales).



## Appendix two

### Alfonsín's Ministers

#### Defense Ministers

R. Borrás	December 1983-April 1985*
R. Carranza	April 1985-November 1985*
G. López	November 1985-June 1986
H. Jaunarena	June 1986-June 1989

#### Economics Ministers

B. Grinspun	December 1983-February 1985
J. Sourrouille	February 1985-April 1989
J. C. Pugliese	April 1989-May 1989
J. Rodríguez	May 1989-June 1989

#### Education and Justice Ministers

C. A. Aramburú	December 1983-June 1986
J. Rajneri	June 1986-September 1987
J. Sabato	September 1987-June 1989

#### Foreign Affairs Ministers

D. Caputo	December 1983-May 1989
E. Kelly	May 1989-June 1989

#### Home Affairs Ministers

A. Tróccoli	December 1983-September 1987
E. Nosiglia	September 1987-May 1989
J. C. Pugliese	May 1989-June 1989

**Labour Minister**

A. Mucci	December 1983-March 1984
J.M. Casella	March 1984-October 1984
H. Barrionuevo	October 1984-March 1987
C. Alderete	March 1987-September 1987
I. Tonelli	September 1987-June 1989

**Public Works Ministers**

R. Carranza	December 1983-April 1985
R. Tomassini	April 1985-June 1986
P. Trucco	June 1986-September 1987
R. Terragno	September 1987-June 1989

**Social Welfare Ministers**

A. Neri	December 1983-June 1986
C. Storani	June 1986-September 1987
R. Barrios Arrechea	September 1987-June 1989

**President of the Central Bank**

E. García Vázquez	December 1983-February 1985
A. Concepción	February 1985-August 1986
J. L. Machinea	August 1986-April 1989
E. García Vázquez	April 1989-June 1989

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\* Died in April 1985

\* Died in November 1985



## Appendix Three

### The research process

The purpose of this appendix is to describe the problems encountered in PhD research process, emphasising in particular the problems experienced by a foreign student.

The first problem is not the PhD but the language. Even if your English is very fluent -which was not my case-, you have to get used to express yourself in a foreign language, to read all the bibliography in English, to talk with your supervisor in English, to live speaking a foreign language. The problem of the language can not be quickly resolved, it is a matter of time. In the first term of my PhD I took a course of Academic Writing which was not very useful. You learn how to write by reading and looking how *they* write. However, I believe it is impossible to get it completely correct. I always write in English with Spanish style, the most difficult task is to adapt English grammar and style. This is something which is impossible to modify. Thus, the main problem that a foreign student faces is that the writing process is much more difficult simply because of the language. In addition, we face this problem completely by ourselves. However, this is a risk that foreign students take deciding to do a PhD abroad. But it is hard to think, especially when one is still at home, how difficult the writing process will be.

Another problem of the language is that you can not enjoy your writing. I used to enjoy writing (even when I made a research on the squid around the Malvinas), but when my supervisor (in the first term!) asked me to write a book review, I could not believe how difficult it was. I have to read in English, try to understand and, then, to explain by writing the main ideas and by giving my own opinion! I was terrified. However, the book reviews were a very useful exercise. They forced me to understand what I was reading and to think about it. However, the most useful point

was that I got used to writing in English from the very beginning of the PhD. This is not just useful for a foreign student but also for a native speaker. To start writing from the very beginning -although many of the things you write will not be of later use- gives you useful skills about how to read and write.

The books reviews were discussed every Friday with my supervisor. This was invaluable. During the first year of my PhD, I had weekly meetings with my supervisor. I was working on state theory and also trying to define the topic of my thesis. Now, I am sure that it would have been very easy to get lost if I did not have his advice. Now I am convinced that the role of a supervisor is crucial especially at the very beginning of the PhD. If you do not have the proper help, it might be very easy to get lost between so many books to read and so many topics to chose.

After I had got used to reading in English and to writing two or three pages by week, I had to write an essay on state theory. This was a very good experience. I realised that after reading for six months and discussing with my supervisor all the book reviews I had written, it was quite easy to have an idea on what to write. Therefore, I realised that the first six months of my PhD had been highly productive.

These first months were full of different experiences. In addition to the already mentioned, I had to learn how to use the Library. This could be very simple for an English person or any European but is not quite the same for an Argentinian. In Argentina, there are no such libraries so I had to learn how to take advantage of it. To learn how to use the Library can become a difficult task. If I asked for help, I usually did not understand the answer and was ashamed to ask again. Therefore, this is not the way. It is simpler to sit in front of the Computer or the CD-Rom and start using the old method of 'trial and error'. After few weeks, one understand how it works. However, it takes longer to take advantages of all the services that the Library provides you.



As a foreign student one must take advantage of being in a British University by taking different courses. In my first years, I undertook three different courses (International Political Economy, International Law and some lectures of European Integration). One realises that it is impossible to combine the research of the PhD and the courses. I was unable to read most of the bibliography for the lectures, so I lost a lot of the discussion. However, I still think that it was good for me to take these courses. Not only have I learned about the issues taught by the courses, but also I have realised about the main differences between this educational system and the Argentinian one. I now can appreciate the advantages of the British system and the advantages of the Argentinian one.

To take courses is also a way of escaping from the isolation of a PhD student and for the specialisation of your research. I thought it was unproductive to concentrate all my years in England studying about Argentina. Therefore, in my second year, I took one course on International State and I regret that I was unable to take any course in my last year since I was most of the academic year in Argentina. For a foreign student I believe it is essential to try to combine the research of the PhD and some courses.

A PhD in a foreign country is not just a degree, it means a whole experience of life. Another country, another language, another culture, one can not reject the different environment, on the contrary, one has to learn from it. Even when you have not idea of the topic of your thesis! To choose the topic of the thesis is one of the hardest tasks of the first year of the PhD. When I was leaving Argentina, most of my colleagues who had gone abroad to do a PhD told me that a day will come -especially in winter time!- when I will ask myself: what am I doing here?!. They advised me not to try to find an answer because it would be almost impossible: the topic of the thesis is still not clear in your mind, you read bibliography that you will probably not use in the end, everything takes you longer because of the language, it is cold, it is dark, it

is raining. When that day came -and my colleagues told me about one single day, however I have experienced a plurality of them- the best is to take a very nice Latin American novel and calm down.

There is nothing you can do about the insecurities of a PhD, even if you are in your own country, at the beginning a PhD sounds like something you will never get, that you will never finish. This feeling is always there, you know you have to do something original and this is very intimidating. The topic of the thesis is a crucial point of the research and it is the most difficult part: to define it in your mind is a very isolated task and put you under considerable intellectual pressure. It would be easier to know that the topic should be loosely defined at the beginning because it will take its definitive form only during the research process.

### **To choose the topic**

Originally I proposed to study the problematic which arises between an integration process, such as the one undertaken by Brazil and Argentina, and national sovereignty. Soon I understood that the topic was too theoretical and that it would be quite difficult to develop a proper research since the integration process in Latin America was just starting. By this time I was already working on my second chapter about the political economy of the military dictatorship. I realised then how the structural reform applied by the military government constrained the economic policy of the democratic government.

A journey to Argentina to look for new material and to do some interviews with academics involved in the study of the economic policy of the military dictatorship helped me to decide the definitive topic of the thesis. On the one hand, it was then clear that it would be impossible to find material (primary as well as secondary sources) about the integration process between Argentina and Brazil from



the perspective that I wanted to emphasise. On the other hand, it was clear that the first democratic government was understudied, despite many articles about its economic policy, its human rights policies and its relation with trade unions. However, there was not an extensive study of the years of the first democratic government. Moreover, after having studied the economic policy of the military dictatorship, it seemed to me clear that the democratic government was constrained by the structural reform applied by the *Proceso*.

The topic of the thesis started to appear clearer: the constraints of the Argentinian state's economic policy during the democratisation process. For this topic, primary and secondary sources would be available. However, at this point it is useful to point out the problem of the primary sources.

If it is not a feature of all the Third World countries, it is undoubtedly a feature of Argentina. A country which was jumping for the last fifty years from a military dictatorship to a democratic government does not have, of course, a tradition of keeping official documents. Democratic governments were aware of the next military government, the military dictatorships intentionally destroyed official documents. Therefore, there is no Public Record Office. Anyway, the period I decided to study was too recent. Therefore, my primary sources were mainly interviews, newspapers, some official documents (such as the speeches of the President or his Cabinet members), statistics from the Central Bank, the IMF and the World Bank. From all of them, I believe that the most useful ones, for this research, have been the interviews.

The interviews were undertaken in a second journey to Argentina during the last part of my second and the first part of my third year. Before going to Argentina, I had a draft of all the chapters of the thesis, excluding the introduction and the conclusion. This was essential since I went to Argentina knowing what kind of information I needed and what kind of interviews I had to make. I arranged all the

interviews from England, sending letter to those I wanted to interview. Some of them refused my request, however, most of the seniors member of the democratic government accepted. Throughout the interviews I was learning a lot and my research was developing some more useful orientations. The interviews gave me the basic idea of the democratic government's main problem.

In the meantime, I was also searching for other primary and secondary sources. In addition, before leaving England my supervisor had read and corrected the drafts of all the chapters. Therefore I was also re-reading the thesis and considering his corrections.

By the end of the second term of my third year I was back in England. I gave my supervisor all the corrected drafts and I started to work on the theoretical part of the thesis, going back to the essay on state theory which was written in my first year.

By this time I felt that the thesis was finished. Soon I realised how wrong I was. The main tasks was now to conceptualise the main argument of the thesis and to relate it to my essay on state theory. Thus, the main argument of the thesis began to slightly change. The empirical information and the state theory essay suggested that the 'constraints of the Argentinian state's economic policy during the democratisation process' can be conceptualise as a 'crisis of the Argentinian state'. Therefore, as said, the main argument of the thesis took its definitive form during the research process. The thesis was defined as a study of the crisis of the Argentinian state during the democratisation process. Having organised my thoughts I was able to write the introduction and the conclusion, which are central parts of the thesis.

The final editing of the thesis consumes a considerable amount of time and is as important as the research process itself. It is essential to read all the drafts to check that the main idea of the thesis is clear and that the work as whole is coherent.



It is also important to correct all the repetitions that one makes, and most notably it is the time to correct the writing style.

### The writing process

Each individual has his own way of writing. For me, it was very difficult to learn through books how to write. However, it was very useful to read some bibliography<sup>1</sup> especially since I was writing in a foreign language.

When I was working in Argentina I got used to writing after having read a couple of articles or books. I did the same here, especially at the beginning of the PhD through the weekly book reviews. However, when I started to write about Argentina, I stopped to do book reviews; I preferred to read more before starting to write. My experience was that I read for three or four weeks and afterwards wrote for the same period of time. However, the writing took me less time than the reading. This is due to my method of writing in English.

As a foreign student one can not pay much more attention to the style, the mistakes, the vocabulary or the English grammar. The easiest thing is to write the ideas you have in your mind and, after a careful reading, to correct them. Here there is another problem -you might not even realise your own mistakes!. And here is when a foreign student can be very isolated. As said, it is a matter of time, and patience. One easy mistake to find is the constant repetition. I believe this is so because you are not sure if the reader will understand what you want to say. In Spanish, I say it once and clearly, and I know that is enough. In English I always doubt.

Another difficult task is to decide the limits of the topic. While writing it is very tempting to write about all you have read. However, while reading it, it is clear how the argument gets lost amidst too many facts. The thesis must be understood as a

limited objective. Most PhD students think of the thesis as *the* work of their life. It is hard to realise that the thesis is *just* the beginning.

I found also very useful to decide deadlines and not allow myself to take extensions. This made my research more organised and gave me a general overview of the possibilities of reaching the final deadline. It is also helpful to limit the reading since there are so many things you can read. Indeed, I used to read a lot more, simply to avoid the day when I had to start writing.

Another problem that I found when the drafts were being written is that my thesis began to seem very obvious. I believe that after three years with Alfonsín's government in my mind I thought that everything was very obvious. I hope this was only just for me! I thought it was also related to the fact that I was living in Argentina during Alfonsín's government so I could also remember what I was reading and writing and I also have my own point of view of those days. I now think that this is because after three years everything seems to be very clear for myself, although I hope there is still some original observations for the reader.

I have learned a lot during these three years. While I believe that originality is one of the main objectives of a PhD thesis, I think that it is much more important to contribute to the knowledge of the reader. I hope this thesis is clear enough to make the reader understand the development and the consequences of the crisis of the Argentinian state during the democratisation process. I hope the reader now understands why the amazing experience of living under democracy after seven years of military dictatorship ended in hyperinflation, looting and a sad disappointment.

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<sup>1</sup> Most notably Becker (1986), Burgess (1982) Lichtman and French (1978).



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